Chapter 4

Organizational Structure of Subnational and Local Government[1]

"Responsibilities in government organization have to be well defined and the spheres of action delineated."

—Ali Pasha 1871

SUBNATIONAL GOVERNMENT UNITS AND DEGREES OF AUTONOMY

Structure of Subnational Government

Below the central government in all countries are the subnational government entities with varying legal and administrative powers and resources to discharge them. These entities comprise the provinces and regions at the upper intermediate level; the counties, districts, and municipalities at the lower intermediate level; and the village councils and territorial committees in small towns at the lowest level. Subnational government can receive its mandate through the country's constitution or through central government legislation. Clearly, in the former case the authority and powers of subnational government enjoy greater protection.

The term "local government" generally denotes the units of government that provide direct services to citizens at the lower intermediate and lowest levels. In a number of countries (as in Italy with its city-states and in many other European countries), the local government units were autonomous long before the country in its present form was constituted, and did not require authority to be devolved from higher government level. The developing countries, on the other hand, started with strong central governments after being decolonized, and the habit of local governance is usually not well rooted.

The structure of subnational government varies according to the nature of the political system. Federal constitutions confer sovereign powers on the states in certain functions, and list specific financial sources for the states to exploit. Generally, local government units are the constitutional creation and responsibility of the provinces, although some countries (e.g., Mexico, Philippines and Thailand) provide for independent national capital regions. The federal government does not normally have direct control over local governments, although, as in the United States (US), it can choose to administer programs through them.[2]

In some unitary systems of government, subnational entities exercise their powers by virtue of the *ultra vires* (beyond the powers) principle: their powers are specifically delegated to them by the central government, which can override their decisions.[3] In other unitary systems, local governments operate under the *general competence* principle, and are in principle entitled to exercise all powers that are not reserved to the central government.

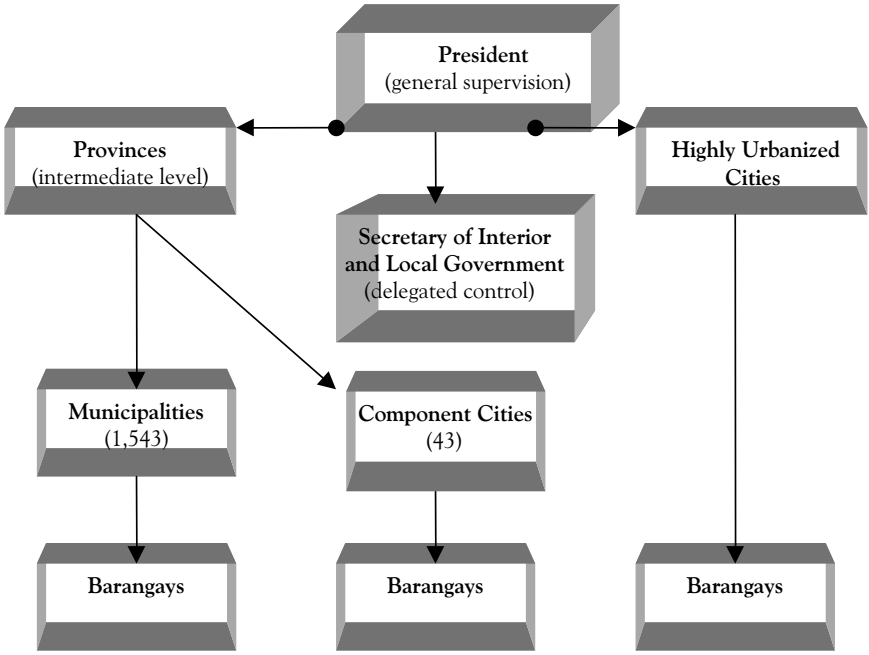
The organization and hierarchy of subnational units show considerable variety, depending on colonial traditions, customary forms of local administration, and postindependence decentralization movements. Most unitary governments have divided the country into provinces or regions, under a governor who is directly elected by the people or appointed by the head of state. The village administrations in developing countries, through elected councils or customary organizations, often survived colonial domination for centuries. Indeed, in many countries, they were essential to selective colonial control through the principle of "indirect rule."

Subnational units vary greatly in size across countries in the same country group, and there are significant differences as well between local governments in the various countries. For instance, in Indonesia, regional government encompasses the provincial government (the first-level autonomous regions) and second-level autonomous regions. In the Philippines, however, the provinces are closer in size to the Indonesian districts. The municipalities are the basic units of government in the Philippines, and the *barangays* (villages) are the submunicipal units at the city and village levels. While the provinces have certain supervisory responsibilities over the municipalities, and the municipalities over the barangays, each level of local government performs basic services within its area of competence (see Figure 4.1).

Autonomy of Subnational Units

The degree of independence of subnational government units varies from country to country. At one end of the spectrum are autonomously functioning subnational governments, controlled by locally elected representatives. At the other end are subnational units that are mere creatures of the central government, which appoints and dismisses mayors. (In reality, subnational governments in unitary countries can never be totally independent of the national government.)

Figure 4.1
Structure of Subnational Government in the Philippines



The governor or provincial head is often a political appointee of the central government, and plays a dual role as head of the provincial administration and agent of the central government. In a number of countries, the provincial administration, composed of the field personnel of central ministries and agencies, merely channels funds from central ministries to lower entities, which it monitors. Countries display contrasting trends in political regionalization (some countries with federal constitutions

or unitary systems, such as Indonesia and the United Kingdom, grant autonomy to some regions), and administrative regionalization (such as that seen in France and Japan). In Italy, although all regions have considerable autonomy, a few have special status on linguistic and ethnic grounds.

In the transitional economies of eastern Europe and the former Soviet Union, the services to be performed through decentralized units of government are still unclear, owing to the tradition of strong centralization. The laws establishing local government in eastern Europe place heavy emphasis on characteristics that distinguish the new system from the old centrally dominated system.[4] Attitudes to provincial or regional administration remain ambivalent. On the one hand, regional government is suspected of being an agent of central control by the central government, and thus a threat to the newfound autonomy of local government. On the other hand, it is recognized that the small size of the basic municipal units makes it difficult to devolve all local functions to them, especially for those services that have a lager catchment area.

There is thus a felt need in transitional economies for an elected authority at the provincial/regional level, to bring regional administration and some of the regulatory authority within the sphere of local accountability. However, this has not materialized because of disputes over territorial boundaries, and the concern of local governments with vesting appellate powers in an elected authority that could have a different political affiliation. In most countries, the vacuum has been filled by deconcentrated units of central administration—regional governors in Bulgaria, district offices in the Czech Republic, *voivods* in Poland, regional and district administration in Slovakia, etc.

LOCAL GOVERNMENT ADMINISTRATION

Overview

While local government is understood to comprise the administrative units that provide services directly to the people, such units are not uniformly positioned in the subnational structure in all countries. The Philippines considers all subnational levels as "local" government, while Indonesia, like a majority of countries, denotes as local government only those administrative levels below the provincial. In the two-tier system in North America and many European countries, the counties occupy the upper end,

while the municipalities or communes and villages take up the lower end of territorial administration. Japan, on the other hand, follows the system of single-tier local government beneath the province or region. The two-tier system appears to have positive advantages in terms of effective administration of settlements lying outside municipal limits, and coordinated planning of infrastructure.

India, following the colonial tradition, has nearly 600 administrative districts, each reporting to the province in which it is located. These districts vary tremendously in size, from a few tens of thousands to several million people. The central and state governments have the authority to vary the territorial boundaries of districts and their subunits, and to merge the units in different ways. Generally, the subdistrict has no autonomous role although, as already noted, the villages have traditionally enjoyed autonomy.

Depending on their size and character, the municipalities could report directly to the government at the center or to the province, or could form part of the district/county administration. The submunicipal bodies, such as neighborhood committees and community councils, constitute the final links in the chain between the government and the citizens.

Administrative systems for rural areas are typically different, and are strongly influenced by cultural factors and traditions. Village organizations were identified as the building blocks of local government in many Asian and African countries, and were later built into the administrative structure for the district (a large collection of contiguous villages). At the same time, in a number of countries, a representative of central or provincial government was placed in charge of administering and coordinating the workings of agencies (in the manner of the French prefect). In a number of Asian countries, democratic decentralization, in the form of elected councils at the district and subdistrict levels, was grafted onto this model.

Establishing local government has posed special problems for countries in Africa and the Pacific, which followed customary modes even during colonial rule. Customary systems persist in many African countries, although customary traditions have been retained alongside formal systems in developed countries like the New Zealand and US, and some developing countries like India. In Africa, Uganda has made the most serious attempt to democratize native authority through local councils that cross sectarian boundaries.[5] Tanzania has succeeded both in devolving authority to local levels and in building a national consciousness beyond tribal and local confines, one of a handful of such cases in Africa.

Constitution making in the Pacific brought out two issues: decentralization and the role of customary systems and leaders. The dispersed islands and the social makeup of the new states made decentralization and power sharing more acceptable to the people. However, the traditional role of customary leaders, which is integral to the way they are chosen, is different from their assigned role within the legislative framework for local government. In the process of induction into local government, the chiefs lose some of their traditional accountability and authority. As Hughes (1998) perceptively put it, custom codified ceases to be custom, as it loses its inherent capacity to adapt to the changed circumstances and aspirations of the community.

Rural Administration

Rural administration is important to the quality of life of millions of citizens and, for this reason, is not treated simply as a residual of provincial government in most countries. Especially in countries with vastly dispersed settlements, as well as those undertaking large poverty reduction and social services programs, administration by remote decisions and unrepresentative agencies is not conducive to efficiency or credibility. The need for effective organizational structures for rural administration reaching down to villages has been recognized in most developing countries.

The emerging model of self-government for rural areas in many Asian countries is that of a village council at the base, a second-tier subdistrict to represent a block of villages, and the top tier at the district level with indirectly elected members. This formal structure is modified by customary norms and self-governing organizations.

In India, where the system of district administration has been given constitutional backing, the district councils also prepare (together with urban representatives) the development plan for the entire district. The 1999 law on decentralization in Indonesia envisages a similar role for the elected district government. Zimbabwe amalgamated rural and district councils into 57 rural district councils in 1993. Similar efforts were seen in South Africa after the fall of apartheid, as well as in a number of African countries. In most countries, there are also examples of local communities coexisting with the formal bodies and managing schools, health services, irrigation systems, etc.

In some countries, parastatal organizations such as development agencies also function as local authorities for their clients. Townships built around large manufacturing plants have, in some cases, been allowed to provide social services. Some of these nonmunicipal local authorities are also permitted to levy taxes and service charges to defray the costs of operation.

Management of Cities

Although all countries have experienced urbanization, the rate, magnitude, and character of urban concentration have differed significantly across countries. Worldwide, there are now over 300 cities with more than a million inhabitants, and 200 of these are in developing countries. In the year 2000, of the 20 largest urban agglomerations ("megacities") with more than 10 million inhabitants, 17 are in developing countries, including 12 in Asia alone. By the year 2025, it is estimated that there will be 20 megacities in Asia, with a combined population of almost 400 million.

However, while a substantial proportion of the urban population lives in the bigger cities, the smaller urban settlements still dominate the urban scene in almost all countries. For example, more than 90 percent of the municipal and township governments in the US serve fewer than 10,000 residents, and 28,000 of France's 36,000 communes have less than 1,000 inhabitants. Municipalization is due largely to the natural extension of city limits. It is also due to the granting of new municipal charters by governments in countries where the citizens have the right to form themselves into new urban units (as in the US and many countries of eastern Europe). Many countries, such as Japan and the United Kingdom, have deliberately amalgamated smaller municipalities to achieve a viable urban settlement structure. Recognizing the importance of secondary cities with populations of less than 300,000 and redressing their relative neglect over the years, developing countries like India and Indonesia have undertaken comprehensive infrastructure development programs in these small and medium towns.

Urban government

What urban government does, who does it, and with what resources vary from country to country, and from town to town.[6] Generally, however, urban public services in most countries comprise

- garbage collection/waste management;
- water supply/sewerage;
- environmental services, streetlight maintenance, parks and recreation;
- primary health care and education (in some countries only, usually to complement central government services);
- some social welfare (e.g., shelters for the homeless);
- internal transport;
- urban planning and regulatory enforcement;
- local public works and housing;
- firefighting and other emergency services;
- traffic regulation;

The responsibility for police and prisons is usually not entrusted to municipal bodies, except in some countries of the Organisation for Economics Co-operation and Development (OECD) (e.g., the US). In many Asian countries the urban areas have suffered from the predominantly rural bias of political leaders, which led to the diversion of resources to nonviable rural development projects. On the other hand, fears of city services being overwhelmed by the flood of rural migrants have made urban authorities determined to stem migration to the cities, even by denying basic services to slum dwellers. The predominance of rural voters continues to nourish the bias against essential investment in municipal infrastructure in many countries, while populist policies operate against self-financing urban services.

It is useful to look at different ways in which urban functions evolved. Countries following the British tradition of local government tend to look at municipalities as service delivery agencies, and to specify functions and finances, boundaries, and central control in relation to this role. Countries in the European tradition tend instead to proceed from allocation of different functions to central and subnational government, thus allowing for wide variations in municipality size and capacity to deliver services. This difference accounts for the much smaller size of urban jurisdictions in many countries on the European continent, compared with those in the UK or countries influenced by the British tradition. Countries in the French tradition have thus been able to let deconcentration ensure state and local coordination in the performance of functions such as law enforcement. Unlike the countries in the British tradition, countries in continental Europe (as well as Japan) grant "general competence" powers to urban governments: the municipality can do anything that benefits the local residents and is not

reserved to central government. In the dual-function model, which prevails in most developing countries and eastern European nations, the municipalities, while locally self-governing, are obliged instead to discharge functions delegated to them by the provincial and central governments (the so-called agency or deconcentrated role).

Municipal systems

"Urban" is different from "municipal." A municipal agency is an administrative entity, while urban services could be, and often are, performed by a variety of nonmunicipal agencies. Nevertheless, urban government has historically been treated as synonymous with municipal administration in many countries.

The status of municipalities in different countries varies between the statutory and the permissive. Urban government has no constitutional status in countries like the UK and the US, but has been granted such status in most Asian, African, eastern European, and Latin American countries, and in continental Europe. At the same time, there are varying traditions of local administration within many countries with dispersed settlements and disparate cultures. The issue that arises, therefore, is whether the municipalities in a country should have a uniform structure, or whether the structure should be modified to suit local traditions.

Some countries provide for the powers and resources of urban local bodies in the constitution itself, while others leave these details to be decided by the provincial or national government in the executive orders and regulations it issues. The laws often envisage different structures for large and small municipalities, and sometimes enable the formation of associations of municipalities and of district councils composed of urban and local representatives for comprehensive planning. (Separate laws are often passed for metropolitan cities.) In a revival of local self-government, Hungary reinstalled the traditional two-tier local structure with the counties (*megyjk*) as the upper level, and the municipalities (settlements) as the pivotal lower layer. It is useful to have the legal and regulatory system recognize significant differences in the management capacities of municipalities of different sizes, through a classification of local government into different levels.

Elected municipalities are not as widespread as may be imagined. A significant proportion of municipalities are governed by bodies nominated by the central or provincial government. The reluctance to accept elected

and autonomous local bodies as the principal organ for local management is a major obstacle to responsive city management.

Within elected municipal governments, executive authority can reside in (i) an executive mayor elected directly by the people (as in central and eastern Europe, Japan, and most cities of North and South America); (ii) council committees (as in the British-based systems in Asia and Africa); (iii) council committees along with administrators appointed by the government or the council itself (as in South Asia); (iv) a mayor selected by a council, which is itself elected by the people (as in several western European countries and some Asian cities); or (v) a mayor-in-council system, whereby a group of councilors is elected along with a person to head the council.[7]

The pattern of executive leadership through a mayor or a mayor-in-council is becoming increasingly common. This is partly an answer to the fragmentation of authority within the municipal administration. Such leadership is more effective, in turn, when supported by a senior professional administrator such as a "city manager".[8] This arrangement is particularly advantageous in a functionally fragmented situation because of the ability of the elected mayor to represent local interests before other public agencies and levels of government, to link political leadership to the administration, and to make collaborative bargains for resource mobilization and program implementation.

The experience of countries in Asia shows that the capacity of a mayor to exercise strong leadership depends on the manner of election, the length of tenure, and on whether the mayor functions in an individual or a collegial capacity. It also depends on the extent to which the higher government eschews day-to-day control over the operations of the municipal council. In the Japan, US, and a number of developing countries in Asia, Eastern Europe, and Latin America, the mayor is directly elected by the people. Executive authority is concentrated in the mayor, subject only to the supervision of the elected council in the approval of budgets, new positions, senior appointments, and major policies. The mayor cannot be removed by the council (although countries like India provide for the mayor's removal by the provincial government, after due process). Many instances of mayors showing innovative leadership, eradicating corruption, augmenting city infrastructure, and forging partnerships with civil society have been documented. (For example, the mayor of Colombo, Sri Lanka, was able to move the municipal system to a more people-friendly system based on partnerships with business and civil society, and involving the citizens in

planning and decision making.) The mayor of La Paz, Bolivia, in the early 1990s turned a corrupt and bankrupt city into a reasonably efficient and financially stable entity.

The model of the mayor elected indirectly by the city council, which is apparently symmetrical with that of the prime minister in a parliamentary system, is followed in Asian and African countries in the British tradition, among others. This model has the advantage of avoiding conflicts between the mayor and the elected council, but makes the mayor more vulnerable to party maneuvers and the mayor's authority dependent on his or her position in the hierarchy of the ruling political party. In a number of countries in the British tradition, executive authority is often split between the standing committee and subject committees of councilors. Inherent in the committee system, even in countries like the UK, is the potential for delay and manipulative politics in local government.

A variant of the model of an indirectly elected mayor is the mayor-in-council system adopted in a number of cities such as Calcutta, India. The majority party elects a group of councilors along with a person to head the council. Each councilor is responsible for a particular department, but functions as a member of a collective executive under the leadership of the mayor. This system gives greater attention to administrative detail, and guidance to the department heads. Its success, however, depends on the ability of the mayor to deal with overlaps and conflicts. The institution is subject to the same risks as a cabinet government system, including the personal agenda of the members of the council. The Calcutta system functions effectively because the vertically controlled hierarchy of the political party dominates both the provincial and city governments, and there is less risk of internal dissension undermining collective work.

Where, as in a number of Asian and African countries, the mayors are not elected but appointed by the political executive of the national government, their authority depends on the extent to which they are allowed to function independently and carry influence with the city administration.

In any case, political authority must be supported by a strong administrative executive (city commissioner, city manager, town clerk, or whatever title). This chief executive of municipalities is appointed differently in different countries. In the British model, the chief executive is appointed by the mayor with the approval of the council and is thus answerable to both. (Such appointments are increasingly made under renewable contracts

for specified periods.) In countries in the US tradition, the strong mayor is empowered to select the chief executive, who is usually endorsed by the council. In the continental European tradition and Japan, the chief administrator can be seconded from the national bureaucracy, or appointed by the mayor under a renewable contract with the approval of the council, after a process of competitive recruitment.

In a number of developing countries that follow the British tradition of local government, the chief administrator in large cities is appointed by the provincial or national government from the generalist cadres of the civil service. Often, there is little or no consultation with the mayor and the council, and the chief administrator can be removed only by the government. If this person comes from the senior executive service, the posting in the city government is treated as a rank-related posting for which no special skills are deemed necessary. Some countries like India have started constituting specialized cadres of municipal chief executives and other senior managers for smaller councils but not for the bigger cities. The practice of the central or state government appointing the chief administrator for large cities creates divided loyalties among municipal personnel and dilutes local political control. The practice is inherited, in fact, from the deep-rooted colonial mistrust of local native administrations and the resulting wish to install a colonial functionary to guard against the possible misuse of power and wasteful expenditure. Accordingly, most mayors in Asian countries see the practice as undermining the principle of local democracy and empowered urban bodies. Provided transparency and credible selection systems are ensured, the model of the locally appointed chief administrator offers advantages because of the scope for selecting competent professionals with experience in diverse aspects of city government.

But, irrespective of the manner in which policies and operational norms are set in the different models, the appointed chief administrator needs the power and status to exercise clear managerial control, especially over department heads; agreement by political leaders to refrain from intruding into managerial functions; and reasonably long tenure. Recent studies have brought out many examples of local innovation and leadership by chief executives, who worked closely with both the political leadership and citizen groups.

Concerning other local personnel (Chapter 10), the personnel systems in urban government in developing countries follow three broad patterns:

- separate, meaning that each urban authority or municipality appoints and controls its own staff (sometimes with the help of central civil service commissions);
- unified, in the sense that the senior management posts are filled from a central cadre of service for local authorities; and
- integrated, meaning that the staff of central and local government agencies form a common cadre, and are exchanged freely between levels of government and localities according to central posting policies.[9]

Submunicipal Organizations

Establishing submunicipal organizations in a number of developed and developing countries answers the need for more responsive community services, and has significant implications for partnerships with different organizations in civil society. For most urban dwellers, the quality of life is determined by what happens in their immediate neighborhood. Submunicipal organizations contribute to four main functions: coordination of urban services, community participation in prioritizing and delivering services, community representation (voice) in city agencies, and mobilization of community resources and skills.

Examples are the community councils in the Netherlands, the barangays in the Philippines, and the ward committees provided for in recent Indian legislation. In countries such as Brazil and India, communities are consulted in setting budget priorities and new programs, and participate in formulating development plans. Of equal importance is the movement for citizens' charters (or service charters) in some countries, and the publication of performance indicators for municipalities and other public service providers. Meaningful participation of citizens requires a legal system that provides for full, timely, and easily accessible public disclosure of decisions related to resource allocation and budgets, and institutionalized channels for participation and monitoring. (These and related issues are discussed at length in Part III.)

In the 1960s and 1970s, national and provincial governments became more closely involved in urban services either directly or through parastatal agencies. This move was partly inspired by municipal incapacity to tackle major capital investments. The other major development was the failure to adjust municipal boundaries to accommodate urban growth. This created problems of peripheral settlements, and the unregulated development of

areas abutting large cities in all developing countries. The issue of establishing local government units of an appropriately larger size has serious political overtones, and boundary changes run up against entrenched political interests. Consequently, urban administration all over the world is characterized by varying degrees of fragmentation:

- *geographical fragmentation*, where an urban area and its periphery are divided among several jurisdictions (e.g., Calcutta with 107 local government agencies, or Metro Manila with a dozen contiguous cities forming a single unplanned conglomeration);
- *functional fragmentation*, where responsibility for urban government is divided among several agencies, including ministries, public corporations, and municipalities. This is especially problematic for functions that link together, such as water supply, sewerage, waste disposal, roads and traffic management, environmental management, etc.[10]

In eastern Europe, very small municipalities resulted from the virtual freedom granted to settlements to govern themselves. These countries have from 3,000 to 6,200 municipalities, with an average population of between 1,800 and 7,600.[11] The majority are too small to employ professional staff or operate even basic services independently. The financial costs of fragmentation are high. Since intermediate subnational units have not emerged (for the political reasons noted earlier), executive capacity can be coordinated and augmented only through cooperation between municipalities, but this is not always easy to achieve in practice.

MEGACITIES AND METROPOLITAN AREAS[12]

The metropolitan cities and national capitals have been the subject of different experiments in governance, ranging from a separate governmental structure to a regional authority supervising local councils. The growth of megacities, i.e. urban agglomerations with more than 10 million population, is the most striking feature of late 20th century urbanization. As mentioned, Asia by the year 2025 is forecast to have 20 megacities with a combined population of nearly 400 million. Megacities have grown because of the natural increase in population and migration, and are expanding to Extended Metropolitan Regions (EMRs), which often cover areas 50 to 100 kilometers from the city core.

Megacities comprise a built-up area at the city core, a metropolitan ring, and an EMR. Some EMRs,[13] such as the JABOTABEK (Jakarta region), the Bangkok metropolitan region, and the Metro Manila region, have a formal administrative status. Such megacity regions form a significant proportion of the national urban population—Jakarta, 20 percent; Bangkok, 50 percent; Seoul, Dhaka, and Metro Manila, 33 percent.[14] These and other megacities are reaching the physical limits of growth, need strategic guidance in better and integrated planning to divert future growth into areas with lower development and ecological costs, and for better and more accountable governance. The alternative is human and ecological disaster.

Metropolitan areas and megacities are economically larger than most of the counties in their respective regions, and their contribution to Gross National Product (GNP) is substantial (36 percent of gross domestic product [GDP] for Bangkok, 24 percent for Manila, and 36 percent for Tokyo). Also, these cities are increasingly forming part of a global network of knowledge, commerce and industry, and cultural exchange. Unfortunately, equally striking are the problems of urban poverty, disease, slums and squatter settlements, deprivation of basic services, lack of transport, environmental pollution, and crime and violence.

Megacities are in special need of good governance. The sheer number of people involved and the importance of these cities in the national economy argue for urgent interventions to address their governance weaknesses. The weaknesses include unclear development policies and coordination, ineffective regulations, violations of land-use rules, unresponsive and unrepresentative administration, and near-complete disregard of marginal groups.

Because a metropolitan area includes the larger urbanized area surrounding a core city, a number of municipalities and rural bodies are within its ambit (1,250 local governments and authorities in Chicago, Illinois, in the US, for example). Metropolitan governance, then, implies multiple organizational jurisdictions and responsibilities. The national capital region of Delhi in India encompasses cities and districts from three surrounding states besides the state of Delhi proper, and is governed by special legislation. Provincial status has been given to Beijing, Jakarta, Shanghai, and Tianjin; a two-tier system (a metropolitan authority and city governance) applies in Manila and Tokyo; a combination of local government and metropolitan authorities is found in Karachi, Mumbai, and New Delhi; and multimunicipal arrangements exist in the Calcutta area.

Clearly, therefore, the conventional single-municipality model has great limitations for metropolitan cities, although there are many instances of a single municipality or authority governing the entire city (as in the case of Toronto in recent times). Metropolitan regions typically contain various municipalities of different sizes. Urban growth cannot be contained within prescriptive municipal boundaries, neither can people be forced to reside within the metropolitan area. Consequently, the responsibility for services is badly fragmented, not only among municipalities, but also among functional agencies of central and state governments and privatized delivery arrangements. Some specialization is possible, however. Responsibilities like sanitation may be local in scale, while others (like transit) may involve higher levels of government.

Necessarily, then, the central and provincial governments must play a significant role in the delivery of services in metropolitan regions all over the world, as national policies on immigration and economic reform generate significant financial and organizational demands on metropolitan government. Developing countries have generally been encouraged by donor agencies to set up metropolitan-level sector authorities for water supply and sewerage, housing, transport, and area development, often patterned after similar agencies in developed countries. The local bodies were, naturally, expected to meet the maintenance responsibilities after the aid-supported schemes were completed. With very little resources from the national government and limited ability to levy user charges, the assets rapidly deteriorated.

Other solutions have focused on interagency coordination through physical and investment planning and through negotiation. The "capital folio" experiment in Manila helped ensure coherently planned investments by subjecting competing agency demands to collective decisions on the basis of agreed criteria. Curitiba in Brazil is a model city for structuring the metropolitan network around the transport system. Singapore demonstrates the huge payoff from effective traffic management, in contrast to the glaring failures in transport planning and rising volumes of vehicular pollution in other Asian megacities (Manila having now far surpassed Bangkok in scale and severity of traffic and pollution problems).

Box 4.1
Dealing with Car Ownership and Traffic Congestion: The Way of Singapore and Hong Kong, China

Dealing with traffic congestion and excessive delays in the movement of goods and passengers in big cities calls for demand management and differential pricing. One important means of enhancing the efficient use of road space is the use of fiscal and regulatory measures to restrain private auto ownership and use. To be politically and popularly accepted, such measures must also provide a good alternative to private car use in the form of safe and affordable public transportation.

Hong Kong, China, used a combination of a high purchase tax and high annual vehicle license fees since 1974 to reduce the number of private cars and motorcycles on the road. This was supplemented by electronic road pricing in the 1990s (as was also introduced in Singapore in 1998) to charge road users for the external effects of vehicular traffic at a given time and location.

Singapore provides an interesting example of the application of an overt policy of containing road traffic congestion through the clear assignment of property rights (to the government) and the use of market mechanisms to re-allocate those rights to the car owners.

User charges in Singapore are complemented by motor vehicle ownership policies. From May 1990, the owner of a new vehicle must acquire a certificate of entitlement (COE) before the vehicle can be registered. The COE is valid for a 10 year period and can be obtained at a monthly closed auction held by the Land Transport Authority. Bids are submitted electronically via automated teller machines. The price of a COE fluctuates accordingly to supply and demand. For a medium-sized car (1,001 to 1,600 cubic centimeters) in October 1998 it was Singapore dollar (S$)25,102. In addition to the COE, the owner of a new motor vehicle is required to pay an import tax that is 41 percent of the market value of the vehicle, a 3 percent goods and services tax, a registration fee of S$140, an additional registration fee that is 140 percent of the market value of the vehicle, and annual road taxes that vary with the engine capacity of the vehicle. The motor vehicle quota system allows the motor vehicle population to grow at a fixed predetermined annual rate. In the US, where income levels are comparable with those in Singapore, nine out of 10 of all central city households owned at least one vehicle in 1990, compared with only one in four resident households in Singapore. (Car ownership is much higher in other East Asian countries.)

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Box 4.1 (cont'd.)

Singapore's area licensing scheme, the foremost example of intelligent road pricing in the world since 1975, requires private cars and motorcycles entering the restricted zone in the central business district during the hours of operation to display a color-coded area license on their windshields, and to pay differential monthly or daily charges for peak and nonpeak hours. The scheme is enforced by traffic wardens eyeballing the traffic past the gantries. These measures help reduce pollution concentration levels during peak hours.

Besides regulating car ownership, both Singapore and Hong Kong, China, have restrained traffic by enforcing controls over parking supply, and imposing high parking charges and road pricing. Most parking in these cities is under public control. By controlling on-street parking, providing of new spaces off-street, and charging for public parking, government can restrain inefficient road use, to the benefit of the great majority. Steps to promote and subsidize public transport supplement these measures, and public transport in both Singapore and Hong Kong, China, is easily accessible and of high standard.

It should be emphasized that such measures, taken in compact city-states, are not easily transferable to other countries. Nevertheless, there is much in these practices that is worth considering in other large cities in Asia and elsewhere.

Source: Phang, Sock-Yong. 2000. Paper on Urban Transportation and Land Regulation. Singapore.

Governments have also come up with multisectoral responses in the form of planning and development authorities with regionwide jurisdiction. Examples of such authorities are to be found in Bombay, Calcutta, Colombo, Delhi, Karachi and Metro Manila. Tokyo provides the alternative response of metropolitan governments with special provincial status. The Tokyo metropolitan government exercises the authority of both city and prefecture over 17 cities, 12 towns, and other areas in the region. It controls and supervises sector authorities, with avenues for public participation. However, in general, development efforts have suffered from lack of responsiveness to local needs, and the failure to take full advantage of representative structures. Metro Manila is still searching for the right answer to balance the needs of local government and regional coordination (Box 4.2).

Box 4.2
Metropolitanization: The Metro Manila Experience

The evolution of 17 local governments into what is now known as Metropolitan Manila occurred in three different time frames. The first took place during the Marcos regime from 1975 to 1986; the second during the term of President Aquino from 1986 to 1992; and the third during the regime of President Ramos from 1992 to 1998.

Metro Manila was created in 1975 during the Marcos regime as a geopolitical entity, and it was governed by a national agency called the Metropolitan Manila Commission headed by Marcos' wife Imelda. The lawmaking powers of the 17 local governments in the metro region were concentrated in the new commission. All legislative and executive powers were vested in a single governing board with five members. The commission was responsible for all the metropolitan services, the levy of taxes and charges, and comprehensive planning. However, it acted in practice as a rent-seeking device for the regime.

After the fall of the Marcos regime, the commission went into limbo. Legislative councils were elected for the local governments. The governing board of the commission consisted of an interim council of 17 mayors from local governments. The commission enjoyed no taxing powers, and its planning and coordination authority was very limited. The bigger municipal units demanded a breakaway from the commission.

In 1995, the Congress passed a law setting up the Metro Manila Development Authority, and designating Metro Manila as a special development and administrative region. Decision-making and policy-making powers were vested in an expanded Metro Manila Council, consisting of mayors, government officials, and the chief of police. The commission was given the powers of development planning, transport and traffic management, solid waste disposal and management, urban renewal, zoning and land use planning, health and sanitation, pollution control, and public safety. The commission could pass ordinances in matters covered by these functions, but this authority conflicted with the legal powers of the municipal councils.

Although the citizens recognize the need for a coordinating body to deal with regional issues, which transcend municipal boundaries, the government has not been able to find the right institutional mix to balance the competing demands of coordination and the autonomy of municipal councils.

Source: Bunye (1999).

Megacity management problems include

- inability to augment public expenditure, particularly capital expenditure, at rates commensurate with the rising need for facilities;
- inadequate skills and manpower to deal with the vast job of managing a rapidly growing and complex city;
- absence of a supportive legal framework and facilitating mechanisms from higher government to ensure the cooperative working of all service and regulatory agencies;
- inadequate time frame for urban planning, budgeting, financing, and decision making;
- lack of sound and well-enforced policies for land use and management;
- deficient political procedures through which metropolitan institutions can secure public access and the people can participate and get information at the neighborhood level;
- unclear institutional responsibilities; and
- tendency of metropolitan authorities to wander into project execution and land development, instead of attending to their main role of metropolitan-level advocacy, information systems, regional planning, and institutional coordination.[15]

The electoral constituencies of large cities are often so large that a single councilor is unable to represent the views of diverse groups, and needs the help of submunicipal structures reaching down to small neighborhoods. Metropolitan governments, to a greater extent, need to develop democratic interaction with the informal sector and the marginal groups, excluded from access to services, or entry into economic activities, or meaningful political participation. In some cities (e.g., Mumbai), however, one begins to see a growing web of business, local communities, environmental management, and other interests.

Globalization, information and communication technology, and environmental concerns have major effects on the spatial spread and management of megacities. To enhance their competitiveness, megacities need to build and improve transportation and communication facilities, and facilities to attract foreign investors. However, those competitiveness needs must be balanced with the social priorities of the poor and environmental sustainability.

While some new towns in developing countries have succeeded, governments generally cannot shift populations and activities to low-density

enclaves. Attention should be focused, therefore, on the strategic selection of activities and on intrametropolitan cooperation. Such cooperation is particularly needed in crime control, transportation, waste disposal, pollution control, water resources, and similar network systems. Interdependence has made collaborative leadership the watchword for metropolitan governance.

As grave and complex as the problems of megacities are, solutions do exist and have been found. Unfortunately, it is far easier to apply them with foresight at the start of the problem (as Curitiba, Singapore, and, to some extent, Seoul have done) than to remedy a disastrous situation after it has been allowed to worsen for decades (as in Jakarta or Manila). Once again, the crucial importance of good governance comes to the fore.

KEY POINTS AND DIRECTIONS OF IMPROVEMENT

Key Points

Every country has levels of government below the central national government. Subnational government entities have different powers, resources, and organizational structure, depending on whether the country has a unitary or federal political system, as well as its colonial experience, persistence of customary forms of local administration, and the character of the independence movements. Generally, however, subnational government is subdivided between an intermediate level ("regions," "provinces," or "districts") and local government (at the municipal and village level). In some administrative systems, subnational entities have only the powers specifically delegated to them by the central government; in other systems, they operate on the "general competence" principle, by which they can exercise all powers not expressly reserved to central government.

In many countries, the rights and powers of local government are explicit in the constitution or in national legislation; in other countries, they remain unspecified, and hence are generally dependent on the attitude of the central government of the day. Moreover, in most developing countries, the functioning in practice of local administrative systems is strongly influenced by cultural norms and customs. Especially in Africa and the Pacific, formal structures have been grafted onto traditional modes of local administration. Therefore, when assessing possible improvements in the effectiveness of local government administration (including those suggested below), it is important to look beyond these formal structures to the role of customary systems and traditional leaders.

There are major differences between local administration in rural areas, in cities, and in "megacities" with over 10 million inhabitants. In rural areas, the frequent structure of government in developing countries is that of a village council with elected members at the base, a second-tier level of government to represent a group of villages, and a top tier of government at district level with indirectly elected members. In cities, the organization of municipal government is largely a function of the services it provides.

City government is normally organized to deliver services (such as waste disposal, water supply, internal transport, firefighting, parks, and similar services) for the direct benefit of the local population. In a minority of cases, municipal governments are appointed by central or provincial authorities—a system that in developing countries partly reflects a central distrust of local authority inherited from the former colonial administration. In appointed municipal governments, management is typically much less responsive and personnel loyalties are divided. Within elected municipal governments, the more frequent problem is fragmentation of authority, especially when the executive head (the mayor) is elected by and from among the members of the municipal council. The main alternatives are separate direct election of both the mayor and the council, and the mayor-in-council model, whereby the majority party elects a slate of councilors along with a person to head the group. In the direct election model (resembling the presidential political system), the mayor has the strongest degree of authority, derived from the personal electoral mandate. In the mayor-in-council model (resembling the cabinet system described in Chapter 2), councilors are responsible for their departments but also function as members of a collective executive under the leadership of the mayor. Whatever the manner of election of the mayor, the local political authority can benefit from the support of a strong administrative executive (city manager or similar role).

The expansion of megacities (urban agglomerations with more than 10 million people) is the most striking feature of late 20th century urbanization. By 2025, megacities such as Jakarta, Bangkok, Manila, Seoul, and Calcutta will account for some 400 million people in Asia alone. A megacity typically comprises a core area, a metropolitan ring, and an extended metropolitan region. Therefore, the conventional single-municipality model is clearly inadequate, as responsibility for services in megacities is badly fragmented and cannot be associated with specific municipal boundaries. Megacities are in special need of good governance

and strong coordination and planning, to deal with environmental degradation and extreme human poverty. Interagency coordination is essential and the central and intermediate levels of government must necessarily play a major role.

Directions of Improvement

Because a first requirement for accountability is a clear assignment of responsibility, it is advisable to specify by law the powers of each level of subnational government, in those cases where they remain ambiguous. It is highly inadvisable, however, to codify administrative customs or other informal modes of behavior, as custom when codified loses its natural capacity to adapt to change.

Weak capacity of subnational government to exercise certain functions should be an indication of the need to strengthen such capacity, and not an excuse for withholding legal sanction for the responsibilities it is expected to exercise. Central and intermediate levels of government can strengthen both the powers and the capacity of local government by

- entrusting to elected local bodies the government of urban and rural areas, with clear functions and commensurate resources;
- avoiding the central appointment of local leaders and resisting the temptation to intervene except when local governance is violated or at risk;
- fostering the creation of mechanisms for accountability and responsiveness of local government to the citizens and for appropriate public participation;
- enabling local governments to appoint qualified staff and providing such technical and managerial assistance as local government may require to function effectively; and
- assuring the effective audit of local government activity and an appeals channel for the redress of citizens' grievances.

Considering the growing importance of large urban centers and megacities, and especially the large numbers of marginal and poor people residing in those agglomerations in developing countries, central and provincial governments have a special responsibility to

- help devise integrated region-wide solutions for land-use, transport, and environmental problems, as well as for the provision of a

minimum level of services to the poorer groups, primarily shelter, clean water, and waste disposal;
- assure that megacity governance responds to the same basic requirements as good governance in general—particularly participation;
- prevent particularistic interests of individual municipalities or of privileged groups from exploiting the unplanned expansion of megacities to their own advantage; and
- help address the issues of internal migration, along with measures to assist the recovery of impoverished inner cities.

It is much easier to anticipate and prevent the problems of megacities (as was done in Seoul) than to remedy them after they have surfaced in their most severe form (as in Jakarta and Manila). Nevertheless, improvements in megacity governance and resolute action by all levels of government are essential to prevent those problems from becoming worse still, and can succeed if they are well coordinated and sustained.

NOTES

[1] This section draws heavily on OECD (1997a); ADB (1995, 1998b, and 1999b); Davey (1993); Fesler and Kettl (1991); Commonwealth Secretariat (1995a); and Hyden (1999).

[2] The US offers a striking example of the variety and profusion of local authorities, all delivering local services. In 1987, there were 83,186 local government units—3,042 counties, 19,200 municipalities, 19,200 townships, 14,721 school districts, and 29,532 special districts.

[3] New Zealand has organized its local authorities into three categories: regional, territorial, and special-purpose or ad hoc authorities. The regional councils set the regulatory environment for managing the natural resources, while the territorial councils provide local services within the regulatory framework defined for them.

[4] Davey (1993).

[5] Hyden (1999).

[6] This section has been drawn largely from Davey (1993); Dillinger (1994); ADB (1998b and 1999b); Svara (1994); and Campbell (1997).

[7] A variation, popular in some cities like Calcutta, is the mayor-in-council, similar to the cabinet system. The mayor is elected from the members of the majority party in the council.

[8] Svara (1994).

[9] Davey (1993).

[10] Oakerson, in Perry (1989); Davey (1993).

[11] Davey (1993).

[12] This section has drawn on Sivaramakrishnan and Green (1986); UN (1993); ADB (1995a and 1998b); and Bunye (1999).

[13] The extended metroregions have few clear boundaries between urban and rural settlements, agricultural activities focused on the urban market, dispersed manufacturing plants, and some commercial functions, as well as a haphazard pattern of new formal housing developments and individual construction.

[14] ADB (1999b).

[15] Sivaramakrishnan and Green (1986).

Chapter 5

Decentralization: What, When, and How

▪ **With Helena Ireen Vista-Baylon**

Unity to be real must stand strain without breaking.
—Mahatma Gandhi

DECENTRALIZATION: DIMENSIONS AND DEGREES

Decentralization of central power and authority to subnational entities can be important for political stability, effective service delivery, poverty reduction, and equity. When ill-conceived or inapplicable to country circumstances, however, decentralization can also carry serious risks. The trend toward decentralization has been especially strong in Europe and Latin America, but a variety of initiatives in that direction have also been taken in many developing countries. The dictionary definition of *decentralization* is "the removal of certain centralized powers or control to various areas, usually the area where operations take place." (Webster 1995). However, semantic confusion arises because of the wide range of meanings with which the concept is associated in different country practices. Accordingly, this chapter begins with a definition of the basic concepts all associated with the word *decentralization*. Dimensions of decentralization include the geographic, functional, political/administrative, and fiscal. Degrees of decentralization include deconcentration, delegation, and devolution.

Dimensions of Decentralization

Geographic decentralization

Geographic decentralization entails dividing the territory of a state into smaller areas and assigning jurisdictional powers among them. The geographic division depends on the relevant criterion used: it should be based on settlement patterns if the criterion is to minister to the needs of

the population; on language and tradition, if the criterion is to recognize different ethnic groups and cultures; and on scale economies, if the criterion is efficiency. Constituent areas of federations correspond to the divisions made by unitary states for urban and rural jurisdictions. Examples are the provinces and districts of Zambia; the departments and communes of France; counties and districts of England; the regions and districts of Scotland; and the provinces, autonomous regions, counties, people's communes, and production brigades of the People's Republic of China.

Functional decentralization

Functional decentralization is the distribution of state's authority and responsibility among different functional entities of government. It involves determining the type, amount, and mix of government services and creating the entities to dispense them. Accordingly, subnational government entities may be regional offices of the central ministries, service districts, autonomous agencies, or local units of government. The geographic and functional dimensions of decentralization are, in practice, intertwined.

Political and administrative decentralization

The degree of administrative decentralization is closely related to the political structure of the state. However, a distinction is still useful, as certain functions may be exercised centrally even in a federal system, and locally even in a centralized system.

Political decentralization shifts decision-making powers to lower levels of government, encouraging citizens and their elected representatives to participate in decision-making processes. In a fully decentralized structure, lower levels of government formulate and implement policies independently, without intervention from higher levels of government.

A federal constitution is by definition a more decentralized arrangement than a unitary one. However, as mentioned earlier, it is possible for a unitary state to shift substantial powers to provincial governments so that a quasifederal arrangement exists, as in Papua New Guinea. Conversely, a number of federal constitutions exercise significant powers over subnational governments, and the two levels of government in federal states have become increasingly interdependent. In Canada and Switzerland, for example, the federal government may disallow provincial law, or the local courts must judge the validity of federal laws. The Canadian central government appoints

lieutenants-governor and important officials of the state judiciary. In India, extensive powers are conferred on the federal government. The growth in spending on federal grant-aided programs in the US means that state- and local-level governments are required to implement them under close federal supervision, and thus lose some de facto autonomy.

Administrative decentralization involves mainly the design of organizational roles, the identification of specific administrative tasks needed to fulfill those roles, and the assigning of actors to perform the tasks. Some generic administrative roles are executive leadership, policy innovation, planning, financial management, operational management, and regulation and oversight. Naturally, the distinction between political and administrative decentralization is blurred in practice.

The amount of administrative tasks performed by subnational governments depends on the variety of service delivery functions assigned to them. Service delivery can be segmented into parts. In public education, for example, subnational governments may perform any one or more of the following services: curriculum design and teaching methods, textbook production and distribution, teacher recruitment and promotion, school building construction and maintenance, and payment of teachers' salaries. Normally, standard setting is reserved to the national government entity.

Fiscal decentralization[1]

Fiscal decentralization (sometimes called fiscal federalism) involves transferring expenditure and revenue responsibilities from the central government to subnational governments. Fiscal decentralization takes a number of forms: (i) self-financing or cost recovery through user charges; (ii) cofinancing or coproduction with the private sector; (iii) expanding local tax and nontax revenues; (iv) intergovernmental transfers; and (v) local borrowing. This chapter does not deal with fiscal decentralization, which is discussed in detail in Chapter 8.

Degrees of Decentralization[2]

The degree of decentralization (whether fiscal or administrative) can be measured by the extent of autonomy of the subnational entities from the central government.

Deconcentration

Deconcentration shifts the administrative workload from central government officials located in the capital to subordinate field staff in the regions, provinces, or districts. Deconcentration is basically an efficiency measure internal to the central government entity, and therefore does not involve a downward transfer of decision-making authority and autonomy from the central government. However, since it does reduce the workload at the center and brings government closer to the people, deconcentration can be considered a first stage of decentralization, especially in highly centralized governments such as those in transitional economies. Furthermore, an intermediate stage can be achieved through a system of field administration, whereby field staff are given some latitude, within prescribed guidelines, to plan the implementation of central directives and to make adjustments to suit local conditions.

Delegation

More extensive than deconcentration is delegation. The organizations to which authority is delegated (i) are technically and administratively capable of performing specialized functions; (ii) may be exempt from central rules on personnel; (iii) may be able to charge users directly for services; and (iv) have broad authority to plan and implement decisions without the direct supervision of central ministries (although they are ultimately accountable to the government). Examples are some types of executive agencies (discussed in Chapter 6), housing and transportation authorities, school districts, public enterprises or corporations, special service districts, special project implementation units, and regional development corporations.

A major feature of delegation is that it helps insulate the implementation of special high-priority projects from political routine and bureaucratic conflicts. It also prevents revenues gained from income-earning ventures from being mixed with regular government budgets. This is generally appropriate, however, only when there is a direct link between the revenue and the beneficiaries from the service provided (Chapter 7).

Devolution[3]

Devolution carries the highest degree of decision-making independence and involves relinquishing certain functions to subnational governments. It entails creating autonomous subnational governments that (i) have

corporate status; (ii) recruit their own staff; (iii) occupy clear and legally recognized geographic boundaries; (iv) raise revenues to finance their functions; and (v) can interact reciprocally with other units in the government system of which they are a part.

In many countries, despite the devolution of functions to subnational governments, the central government still retains some supervisory powers and plays a significant financial role. Also, the central government sometimes tries to keep its hold on local governments through formal and informal controls or regulatory instruments, often linked to project or program funding. This is intended to ensure that subnational governments will act consistently with national development policies and plans, and follow prudent financial practices. (Sometimes, however, it reflects merely a reluctance to let go of central power and control.)

Developments in decentralization worldwide have abused the term to apply to very different phenomena. *Decentralization* has been expanded in its meaning to include also the dispersal of functions to organizations outside the government apparatus, in various forms of alternative service delivery (Chapter 6), and even to privatization. Such an overly broad use of the term, however, makes intelligent discussion difficult. In this chapter, we use decentralization to refer to the varying degrees of dispersing functions and authority along the formal structure of government, i.e., the geographic articulation of state power and activity.

RATIONALE, ADVANTAGES, COSTS, AND RISKS OF DECENTRALIZATION

Rationale and Advantages

Much of the decentralization that occurred especially during the 1980s was politically motivated.[4] In Latin America, fiscal and administrative decentralization grew out of democratization movements when elected governments operating under new constitutions replaced autocratic central regimes. Conversely, strong and consolidated local democracy contributed to a more accountable government in the country as a whole. In most of Africa, regionalism and ethnicity, and the spread of multiparty systems, gave rise to more local control and participation in administrative decision making.

In extreme cases, decentralization was a desperate attempt of the state to keep the country united. Political and ethnic pressures, and the long civil wars in Mozambique or Uganda, for example, paved the way for the granting of more autonomy to all localities, or the forging of asymmetrical federations. Mikhail Gorbachev's draft "Union Treaty," before the August 1991 coup, was a last-ditch effort to prevent the Soviet Union from splintering. In some Asian countries previously governed by autocratic regimes, decentralization was seen as the natural alternative. Ethnic conflicts have also exerted strong pressure for decentralization, as in Indonesia, Philippines, and Sri Lanka. As Dillinger has pointed out, decentralization in most countries has come from ad hoc reactive responses by the national government, rather than as a sequenced set of well-conceived policies.

The literature, however, sets out a clear economic rationale for decentralization. Allocative efficiency of public resources can be raised if expenditure decisions are made at lower levels of government that are more responsive to local demands than by a remote central administration. This closer nexus between expenditure decisions and their beneficiaries also limits opportunities for inefficient resource use. From an efficiency standpoint, the Oates "decentralization theorem" states that each public service should be provided by the jurisdiction having control over the minimum geographic area that would internalize the benefits and costs of such provision. In reality, this test is pretty tough to set up and satisfy. A more practical approach, the principle of "subsidiarity," has been adopted by the European Union in assigning responsibilities among levels of government. (Fiscal decentralization was incorporated in the European Union's Single European Act of 1987 and formally adopted by the European Commission in 1993). According to this principle, taxing, spending, and regulatory functions should be exercised by lower levels of government unless a convincing case can be made for assigning these functions to higher levels of government.

The potential gains of decentralization derive mainly from the close contact of government institutions with local residents. First, it may open an environment for public participation in government decision making, resulting in (i) more flexible administration since the government can tailor its goods and services to the needs of the various political, ethnic, religious, and tribal groups it serves; (ii) more effective administration, as local leaders can more appropriately locate services and facilities within communities and integrate isolated areas into regional economies; and (iii) political stability and national unity, as civil society organizations are given a stake in maintaining the political system (see the illustration of northeast Brazil, Box 5.1).

Box 5.1
Rural Development and Community Participation in Northeast Brazil

The chronic poverty in northeast Brazil was caused primarily by the poor resource base in the region and the virtual absence of a functioning rural financial system for the poor. Efforts to reduce rural poverty cost the Government more than $3.2 billion in expenditures over the last decades. Rural development projects initiated by the federal government included drought relief and discrete sectoral projects, and the integrated development of selected areas to increase agricultural productivity. However, these efforts hardly reduced rural poverty in the region.

In mid-1993, the Brazilian federal and state governments reformulated, with the assistance of the World Bank, the poverty intervention program and made the projects community-based, with project funds going directly to community associations to finance small-scale subprojects they had identified themselves. Unlike previous rural development programs, the reformulated program addressed institutional issues such as decentralization, municipalization, community organization and participation, transparency in decision making, and training and technical assistance to municipalities.

The preliminary evaluation of the reformulated program showed a general improvement in the living conditions of the rural poor and an increase in productivity and employment generation in the region. Aside from improved project design and sustainability, what contributed to the positive outcomes were the increased participation by residents in subproject selection and execution, transparency in project design and implementation, and decentralized fiscal and investment decision making by state and local governments.

Source: Johan van Zyl et al., "Decentralized Rural Development and Enhanced Community Participation: A Case Study from Northeast Brazil," Policy Research Working Paper 1498 (Washington, DC: World Bank, 1995).

Second, decentralization may create opportunities for a more accountable government. Residents participating in decision making can easily monitor and evaluate the government's compliance with the decisions made, can demand speedier government operations, and push local institutions to enhance their capabilities in carrying out functions that are usually not performed well by the central government on its own.

Third, decentralization may be a first step to more transparency in government. Given the appropriate policies for information transfer,

subnational planning and policy making can be made more accessible even to the remotest residents.

Finally, decentralizing fiscal powers to local leaders can ease the financial strain on the central government since subnational governments can more readily mobilize funds by collecting fees and charges for the services they provide. Unfortunately, this generates the frequent temptation to offload expenditure responsibilities to subnational governments that do not have the authority or capacity to raise the required resources (Chapter 8).

Costs and Risks[5]

Decentralization carries various risks as well. First, unless perfectly designed (which is unlikely), decentralization can entail the loss of scale economies and generate unnecessary duplication and underemployment of staff and equipment. Second, it can create coordination problems and conflict where none exists. Especially applicable to ethnically heterogeneous countries, decentralized decision making may subvert the overall resource distribution and macroeconomic management objectives of the central government (discussed in more detail in Chapter 8). More importantly, decentralization can jeopardize the civil and social rights of certain minorities.

Third, the presumed efficiency gains from decentralization can be undermined by institutional constraints. Subnational governments in developing countries worldwide generally have very weak administrative capacities, which can likely make services to be delivered less efficient and effective (Box 5.2). Where resource endowments and capacities are uneven, as within large countries or across the various islands in an archipelago, decentralization may cause regional inequities to deepen. Also, in countries where different ethnic groups and secessionist movements take up large areas, decentralization/centralization issues can contribute to severe internal societal conflicts. From Kosovo to Aceh, East Timor, the serious implications of the issue cannot be overestimated.

Finally, decentralization can worsen rather than improve overall governance. The generic test here is whether the legitimacy and quality of governance is broadly higher at local level than at national level. If the answer is no, decentralizing into a comparatively worse governance climate will tend to worsen the quality of governance in the country as a whole. Local-level autocrats can be as bad or worse than national-level autocrats.

Box 5.2
Are Local Governments Incompetent?

One of the classic objections to decentralization is that local governments are incompetent. Citing statistics on illiterate mayors, crude accounting systems, and widespread nepotism, critics argue that local governments are incapable of taking on expanded functions.

This argument is not as compelling as it may first appear. As a practical matter, when a major service is decentralized, existing field staff are normally decentralized with it. Thus when primary education was decentralized to the departments and states in Colombia and Mexico (respectively), existing central government teachers were decentralized at the same time. They became no less (or more) competent than they had been when they were employed by the central government.

Technical competence has emerged as a problem when central government employees have refused to be decentralized. In Peru, for example, many central government highway engineers chose to retire rather than accept employment in local government. Local staff proved incapable of assuming the task on its own (a problem exacerbated by the absence of central government financing for the newly decentralized roads). This eventually led to the collapse of the decentralization effort, which was followed by recentralization. Governments can facilitate the transfer of central government staff by requiring local governments to offer them the same wages and benefits they received as central government employees. But this is a two-edged sword. While it makes it easier to decentralize staff, it can make it difficult for local government to adapt wages and benefits to local conditions or to introduce management and personnel reforms.

While transferring staff can address the immediate issue raised by decentralization, the overall management weakness of local government remains a cause for concern. Low salaries, low prestige, and high turnover that results from extensive political interference in personnel decisions can make it difficult to attract and retain competent staff, particularly in very small jurisdictions.

Reform has proven difficult. The management of public spending is at once a highly technical and an intensely political process. The challenge for local governments is to put into practice methods that are both technically sound and politically and bureaucratically feasible (Nellis 1991). Human resource management is also a challenge. Local governments' ability to introduce personnel reforms—including performance evaluation mechanisms, training, and pay linked to productivity, and incentives to attract and retain competent, skilled personnel—is often constrained by powerful public employee unions. These problems are not unique to local governments, however. They are the same factors that affect the competence of staff in central government.

Source: Burki, Shahid Javed, Guillermo E. Perry, and William R. Dillinger. 1999. "Beyond the Center: Decentralizing the State". World Bank Latin American and Caribbean Studies. Box 2.3.

Countries therefore need to assess realistically these costs against the likely benefits. There can be no a priori blanket judgment for or against decentralization, particularly considering the various different meanings of the term and ensuing confusion in many debates.

APPROACHES TO DEFINING SUBNATIONAL TERRITORIES[6]

Table 5.1 lists six approaches to delimiting geographic areas. These are discussed in turn below.

Table 5.1
Approaches to Dividing Geographic Territory

Approach	Key Feature
Functional	Matches area to function
Community	Gives primary consideration to social geography
Efficiency	Considers performance
Managerial	Considers management capacity of government organization
Technical	Considers the landscape or economy of the country—climate, topography, soil conditions, etc.
Social	Considers the natural formation of inhabitants in geographic areas

Source: B.C. Smith, Decentralization: The Territorial Dimension of the State (London: George Allen and Unwin, 1985).

The Functional Approach

The process of matching area to function involves identifying government functions and the associated necessary institutions, and on this basis delimiting the geographic boundaries within which government functions are to be performed. Following Oates' theorem, the hierarchy of geographic communities corresponds to the scale of operations necessary for the optimum performance of the general government.

But there are difficulties. Aside from the fact that the different functional criteria may produce overlapping boundaries, it is impossible to objectively restrict the "natural" geographic area of a problem (such as in health, housing, and the environment) to the functional area that is politically determined by the government. In effect, the determination of functional areas becomes a political judgment as to what the "right" jurisdiction is for a particular function. The functional approach remains the main point of reference, but needs to be complemented by other considerations.

Community Approach

The community approach prescribes that government boundaries should correspond to territories in which the inhabitants manifest common behavior and attitudes. Applying the community approach involves determining two essential elements: (i) the spatial distribution of settlements such as villages, towns, cities, and metropolitan areas; and (ii) the spatial patterns of the activities of inhabitants, indicated by the people's economic transactions, their personal mobility in commuting to work and shopping, recreation, and cultural linkages.

The process mainly involves identifying geographic centers and hinterlands and their social and economic interdependence as indicated by the number of inhabitants employed in banks, shops, schools, hospitals, newspapers, and so on. This is useful for the design of effective land-use plans, traffic management, highways development, and public transport. Also known as the "central town" concept, the approach is applied notably in Belgium, France, Germany, Sweden, and Yugoslavia, which were able to build strong links between their urban centers, hinterlands, and rural areas. The approach is generally consistent with the regional "growth poles" development approach of the French economist François Perroux (popular in the 1960s), which however has rarely been successful and often led to substantial waste.

Complexities in center-hinterland relationships make it difficult to demarcate communities and measure the urban status of centers. But the task of making government boundaries coincide with centers in towns or urban areas, however difficult, would "internalize" the service externalities generated by local government functions. Also, it would produce a more equitable distribution of government goods and benefits among the community of inhabitants. The more homogeneous the community is, the greater the likelihood that government action will be close to the collective preferences of citizens.

Efficiency Approach

Geographic areas may be divided to permit the government to deliver goods and services efficiently and make the best use of its resources. This approach suggests large jurisdictions with large populations, permitting local governments to (i) widen their range of functions to serve more people; (ii) benefit from a larger tax base; and (iii) optimize their workloads. The

efficiency approach is most appropriate for local government services such as urban planning, housing, water, sewerage, and transportation. The efficiency approach to decentralization can be embodied in Oates' "decentralization theorem" mentioned earlier.

Measuring the efficiency of an organization according to its output forms the basis for either enlarging or reducing jurisdiction boundaries. However, unlike services whose output is quantifiable, such as highways, sewerage systems, or water supply, objective criteria for measuring the "output" of services of, say, teachers, social workers, policemen, health workers, and the like, are extremely difficult to find.

Many western European countries (notably Denmark, Germany, Sweden, and United Kingdom) have reduced the number of their municipalities through mergers. There is, however, no conclusive evidence that operating in larger jurisdictions is always more efficient than operating in smaller ones. Scale economies constantly change with changes in technology and government function. Also, exploiting scale economies does not necessarily require an administrative entity of optimum size. Scale economies can also be attained by adopting joint service agreement, and by delegating the execution of a variety of local services to provincial governments.

Management Approach

The aim of the management approach is to divide state territory into more manageable parts. It corresponds roughly to the "span of control" criteria for central government organization (Chapter 3). It involves drawing boundaries to reflect the perceptions of central decision makers as to how the flow of work can best be managed. The number and location of field offices are arrived at according to an optimum span of control by the headquarters, or the workload appropriate for a field office. This approach is more appropriate for deconcentration and delegation, rather than for political decentralization or for the constitution of local government units.

Technical Approach

In dividing the state territory, one may consider the natural properties and physical features of regions that may bear significance for administration. Although the term region may mean different things in geography and public administration, administrative regions are often based on geographical regions, i.e., areas with unifying characteristics or properties.

Administrative boundaries are often drawn on the basis of physical geography, especially when governments attempt to manage natural resources such as water supply, land drainage, coastal erosion control, irrigation, soil conservation, forest development, recreation, waste disposal, or wildlife conservation. Also, physical geography can offer an appropriate basis for economic and social planning, especially if the lives of the inhabitants are tied closely to the exploitation of natural resources. Boundaries may usefully be drawn around river basins or watershed areas, for example. Box 5.3 shows how the technical approach can be used as the basis of the administrative efficiency of the organization.

An administrative structure based on geographical features is the Tennessee Valley Authority in the United States (US), probably the best known example of a multipurpose development authority based on a watershed area. The regional boundaries within which the authority operates is determined by the catchment areas of the river. Local authority boundaries are taken into account in subdividing some water regions.

Box 5.3
The British Water Industry

Administrative criteria can also be considered in delimiting a geographic area according to the technical principle. This is best illustrated by the water industry organization in the United Kingdom. Ten authorities in England and Wales are responsible for a range of functions connected with water use—conservation, supply and distribution, sewerage and sewage disposal, land drainage, pollution control, and recreation. Each authority handles a self-contained water processing cycle and thus differs from authorities with fragmented structures, which deal only with some parts of the water processing cycle. The catchment areas, or the areas of land draining to a particular river, determine the regional boundaries of each authority. Each water region is made up of a number of catchment areas, and the subdivision of some water regions takes into account the boundaries of the local authority. The size of each region thus reflects managerial perceptions about the amount of work that a single organization can handle.

Source: C. Gray, "The Regional Water Authorities," cited by B.C. Smith, Decentralization: The Territorial Dimension of the State (London: George Allen and Unwin, 1985).

Social Approach

The territorial structure of government and administration may consider socially distinct regions based on history, ethnicity, language, or some combination of these. The approach is especially useful when, during the process of unification, some areas forming the constituent parts of a country may continue to experience a sense of identity that cannot be overlooked by the constitutional and administrative system.

Changing the boundaries of the states of a federal country is more difficult than changing regional boundaries within unitary states, as states in federal countries are usually protected by constitutional guarantees. However, when state boundaries in a federation owe their origins to the artificial creations of an external power (normally through a colonial experience), restructuring a federation may be easier.

Other Considerations

As noted, the main approach to geographic decentralization is to match area to function. However, other considerations bear on the attainment of national economic objectives. Developed countries have long historical experience of associating spatial change with economic development, but ex-colonial developing countries have spatial divisions oriented to the economic interests of the former colonizing power. Many of the difficulties in establishing links among economic activities in a nation and among ethnic groups can be related directly to colonialism, which left countries with artificial boundaries not conducive to the mobilization of resources for internal markets, and inimical to nation building, especially in Africa.[7]

Attempts to derive economic benefits from existing geographic divisions can be made through the deliberate use of subsidies and taxes either to encourage businesses to relocate from one area to another or to discourage them from doing so. If successful, such regional development strategy can lead to a more uniform distribution of regional wealth and standards of living. In addition, if successful, such a strategy of interregional equalization could lead to a lower degree of conflict and, in time, more rapid economic development. Unfortunately, such an approach has generally failed and produced only waste on a large scale as well as substantial opportunities for corruption. The approach is not to be ruled out, but must be subjected to detailed scrutiny and realistic safeguards.

POLITICAL AND ADMINISTRATIVE DECENTRALIZATION

Because the political and administrative dimensions of decentralization are closely linked in practice, they are discussed here under the same heading. However, it is important to bear in mind the conceptual distinction between the two, as defined at the start of this chapter. Note in particular that, while there are economic and operational criteria to help determine the best administrative allocation of functions, the fundamental decisions concerning the structure of the state are inherently political, resulting from the preferences of the population and the context of the times, and cannot be subject to any technical assessment. (For this reason, the international financial institutions have no mandate and no legitimate role in matters of political decentralization per se.)

Creating a Favorable Environment

The primary concern of political decentralization is creating a conducive political environment for decentralized decision making. The essential components of such an environment are (i) autonomous decision making powers of lower levels of government; and (ii) citizens' access to decision making (see Chapter 14 for a discussion of public participation). In parallel, it is necessary to strengthen autonomous local entities. To prevent different tiers of government from working at cross-purposes, the national constitution should provide the framework within which local governments are to function.

The tensions between urban and rural areas in most developing countries are relevant to assessing the opportunities for administrative decentralization. Typically, the urban elite as intermediaries for the colonial power tended to dominate policy making in central government in the colonial era. Independence, in many Asian countries, meant the emergence of political leadership from rural areas, and an ensuing shift in the spatial composition of legislative bodies and the administrative executive. Some political theorists in the 1960s also fueled rural fears about the adverse terms of trade for rural areas' agricultural products and the "parasitic" role of cities.[8] In Africa and elsewhere, by contrast, postcolonial governments were still in the hands of an urban elite, and policies carried a strong anti-rural, pro-industry bias.

In Asia, cities have tended to suffer from less attention in national policies. The resulting uncontrolled growth of urban areas led to the problem

of peripheral growth, and the extension of infrastructure and shelter facilities to the settlements adjoining cities. Integrated approaches to the development of urban and rural areas within a district framework emerged only in South Asia, and were later reflected in the decentralization laws in a number of Asian countries. The district or county construct enabled coordinating mechanisms to be devised for the joint management of resources in urban and rural areas, to provide for supporting urban facilities needed by rural areas, and to plan for spillover development outside cities and districts. Again, the situation was the opposite in Africa where the centers absorbed an increasing proportion of the wealth produced in the countryside, while returning very little in the way of public services.

Legal Framework for Decentralization

However decentralized a country may be, if it is to remain unified the actions of subnational government must be subject to some form of central regulation and monitoring. Central regulation is, of course, most obvious in deconcentrated structures where local government bodies carry out functions on behalf of the central government. But a degree of regulation is also essential in devolved administration, not only to ensure national standards of public services but also to prevent local government actions from interfering with or contradicting national policies and goals.

Normally, the country's constitution should embody the broad outlines of decentralization, namely, the territorial divisions; the general authority and responsibilities of subnational levels of government; the description and role of key institutions at central and local levels; and the conditions under which detailed rules of decentralization are to be established or changed. [9]

Enabling laws, in accordance with the constitutional provisions, would then define the specific parameters of decentralization, and provisions for intergovernmental fiscal relations; the subnational government structure, including procedures for election, accountabilities, and remedies; the classification of local governments within tiers and the division of functions among local governments in different tiers; and the manner by which citizens can access and participate in subnational government activities. Finally, administrative rules would detail the implementation of decentralization, including sections on intergovernmental relations, as in the Philippines (Box 5.4).

Box 5.4
The Philippine Local Government Code of 1992

The Local Government Code is a landmark legislation in the Philippines, considered by far the most far-reaching policy that addresses the decades-old problem of an overcentralized system in the country.

The Code was promulgated in 1991 in accordance with the 1987 Philippine Constitution, which declared that "the state shall ensure the autonomy of local governments," transferring substantial political and administrative authority and responsibilities to local government units.

The Code defined the transfer of two major groups of government activities:

- the transfer of functions and responsibilities:

- **mandatory services**: health (field health and hospital services and other tertiary services); environment and natural resources (community-based forestry projects); agriculture (agriculture extension and on-site research); public works (local roads, waterworks, and minor infrastructure); and social services (social welfare services)
- **other services**: education (school building program); tourism (facilities, promotion, and development); telecommunication services and housing projects (for provinces and cities); and other services such as investment support.

- the transfer of central power and authority:

- **enforcement of certain regulations**: reclassification of agricultural lands; enforcement of environmental laws; inspection of food products and quarantine; enforcement of the national building code; operation of local modes of transportation such as tricycles; processing and approval of subdivision plans; establishment of cockpits and holding of cockfights
- **fiscal management**: broadening of taxing powers, providing the local governments with a specific share of the proceeds from the exploitation of national resources in their area, e.g., mining, fishery, and forestry charges; increasing their share in national tax revenues, i.e., an increase in the internal revenue allotment, from a previous low of 11 percent to a high of 40 percent; and increasing opportunities to generate revenues from local fees and charges
- **entrepreneurial activities**: build-operate-transfer arrangements with the private sector, bond flotation, and loans from private institutions
- **expanded participation of civil society in local governance**: allocation to nongovernment organizations and other civic organizations of specific seats in local special bodies, including the local development council, the local health board, and the local school board.

Source: Republic Act 7160 (Local Government Code of the Philippines 1992).

In many countries, however, decentralization laws and regulations are formulated piecemeal and on an ad hoc basis. In these countries, therefore, all laws and regulations should be codified not only to maintain a coherent and logical framework and to spot duplications and inconsistencies, but also to provide policymakers with a clear set of policy objectives. Following such codification and clarification (including the repeal of conflicting or obsolete legislation), it would become possible to design a legal framework with a clear range of responsibilities for each level of government as well as responsibilities jointly shared by the central and local governments.

In drawing up the legal provisions, one should first adequately address the broad ethos and objectives of decentralization, and only then the nuts and bolts of administration. Often, this is not done, and the overall objectives are left unspecified. Another factor to consider is the institutionalized channel for public participation. In a number of countries, local elections enable citizens to signal their preferences efficiently and enforce leaders' compliance with their wishes. In some cases, citizens' groups and nongovernment organizations (NGOs) are allotted seats in certain local councils responsible for local decision making. Public participation, however, should be seen not only as an instrument for designing a legal framework, but also as a measure of empowerment as an end in itself, against which decentralization will be evaluated.

Some Practical Pointers

Problems must be anticipated as various decentralization measures are introduced. First, the center should always consider the different capacity of lower levels of government to handle new responsibilities. The anticipated effect and costs of decentralization will not be the same for all regions. It is essential that central authorities, based on a study of the capacity of different subnational governments, make a differentiation of the amount of powers to decentralize. Needed adjustments can then be made during implementation.

Second, opportunities opened up for citizen participation do not immediately result in meaningful public participation until the mechanisms have been institutionalized. Local governments should ensure that information is made meaningful and useful to the citizen, and must be encouraged to do so by the central government.

Third, in a deconcentrated system where central regional agencies dominate local jurisdictions, local governments will inevitably face stiff competition from the field offices of the central agencies, which are typically better equipped with technology and manpower. Turf problems and administrative jealousies can frustrate decentralization and make deconcentration less effective. Central authorities need to draw a clear dividing line between functions to be deconcentrated and those to be devolved.

The success of decentralization is determined both at the policy formulation and at the implementation stage. In many developing countries, decentralization failures almost invariably stem from poorly planned and organized implementation strategies. Decentralization is a complex process that typically requires gradual and careful experimentation. In developed countries, decentralization is a product of long social experimentation over a number of decades. The risks of hasty action, including the risk of jeopardizing the sustainability of decentralization itself, are especially pronounced in developing countries. In some cases, however, there may simply be no alternative to the immediate devolution of central powers to the regions.

It is sensible also to allow a degree of flexibility in implementing laws. It should be borne in mind that while decentralization mandates are usually formulated at the center, implementation is shaped and influenced by the local context and environment, which includes historical, cultural, and sociopolitical factors. Also, since decentralization should build on both the strengths and the weaknesses of old and new institutions, the implementers must be creative in making the proper selection and adjustments.

In centralized government structures, deconcentration is invariably the first step toward decentralization. Pilot testing of parts or the whole of the decentralization measure can be useful. Careful recording of factors causing success or failure during pilot testing will provide pointers for improving implementation in other regions, as will clear-eyed ex-post evaluation of such efforts. No matter how well implementation is planned, challenges, interventions, and interruptions should be expected. In the case of the Philippines, for example, interruptions included the conduct of local and national elections and the continued practice of granting "pork barrel" funds to Congress members to dole out at their discretion, a practice which made local budgeting and planning less meaningful and effective.

WHAT BELONGS WHERE? THE GEOGRAPHIC ARTICULATION OF GOVERNMENT FUNCTIONS

Table 5.2 classifies government activities in accordance with their assignment to different levels of government. The table is self-explanatory. The information it contains, while associated with actual experience and sound theory, should be interpreted as indicative and not prescriptive. See the note to the Table for an explanation of the terms.

Table 5.2
A Representative Assignment of Government Responsibilities

Function	Policy and Standards Oversight	Provision/ Administration	Production/ Distribution	Comments
Interregional and International Conflict Resolution	U	U	N, P	Benefits and costs international in scope
External trade	U	U, N, S	P	Benefits and costs international in scope
Telecommunications	U, N	P	P	National regulation not feasible
Financial Transactions	U, N	P	P	National regulation not feasible
Environment	U, N, S, L	U, N, S, L	N, S, L, P	Externalities of global, national, state, and local scope
Foreign Direct Investment	N, L	L	P	Local infrastructure is critical
Defense	N	N	N	Benefits and costs national in scope
Foreign Affairs	N	N	N	Benefits and costs national in scope
Monetary Policy, Currency, Banking	U, ICB	ICB	ICB, P	Independence from all levels essential; some international role for common discipline
Interstate Commerce	Constitution, N	N	P	Constitutional safeguards important for factor and goods mobility

Table 5.2
A Representative Assignment of Governmental Responsibilities
(cont'd.)

Function	Policy and Standards Oversight	Provision/ Administration	Production/ Distribution	Comments
Immigration	U, N	N	N	U because of forced exit
Transfer Payments	N	N	N	Redistribution
Criminal and Civil Law	N	N	N	Rule of law a national concern
Industrial Policy	N	N	P	To avoid beggar-thy-neighbor policies
Regulation	N	N, S, L	N, S, L, P	Internal common market
Fiscal Policy	N	N, S, L	N, S, L, P	Coordination is possible
Natural Resources	N	N, S, L	N, S, L, P	Promotes regional equity and internal common market
Education, Health, and Social Welfare	N, S, L	S, L	S, L, P	Transfer in kind
Highways	N, S, L	N, S, L	N, S, L	Benefits and costs of various roads vary in scope
Parks and Recreation	N, S, L	N, S, L	N, S, L, P	Primarily local benefits
Police	S, L	S, L	S, L	Benefits and costs of various facilities vary in scope
Water Supply, Sewerage, Refuse Management, Fire Protection	L	L	L, P	Primarily local benefits

ICB Independent central bank
L Local government
N National government
P Nongovernment sectors/Civil society
S State/provincial government
U Supranational responsibility

Source: Anwar Shah, "Balance, Accountability, and Responsiveness," Policy Research Working Paper 2021 (Washington, DC: World Bank, 1998), Annex Table 1.

INTERGOVERNMENTAL RELATIONS AND COORDINATION[10]

Pattern of Intergovernmental Relations

In developing countries, intergovernmental relations and coordination have become critical to the strategic coherence of government, as well as to the preservation of a national identity, without which decentralization becomes disintegration, and disintegration most often produces bloodshed on a major scale. The pattern of relations between governments at different levels will vary according to the nature of government, the extent of centralization of functions and resources, and the ideology of control over subnational units. Subnational agencies are becoming more involved not only in service delivery and regulation, but also in policy making and dispute resolution.

Most countries define the formal arrangements that govern intergovernmental relations through legal provisions or executive orders. There are two sets of separate but interrelated relationships: the horizontal relationships between local government and civil society, and the vertical relationships between levels of governments (on which deconcentrated delivery systems are superimposed). Complications are introduced when different levels of government, not to mention nongovernment providers of services, look after different aspects of the same service (e.g., education or health care). The issue of service delivery then becomes much more than just a central-local option; it becomes a question of contestability among multiple providers. Both vertical and horizontal rules are essential if local governments are to perform their functions well.

Instruments of Intergovernmental Relations

In federal systems, intergovernmental relations are primarily defined through (i) formal constitutional change, redefining the roles and responsibilities of the federal and provincial governments; (ii) nonstatutory federal-provincial agreements (often backed by permanent consultative mechanisms) that set out obligations and commitments in specific policy areas, such as the environment; (iii) statutory and binding obligations and commitments, such as intergovernmental fiscal transfers; and (iv) informal agreements among political leaders to undertake a certain course of action. Intergovernmental processes are characterized according to the number of participants (multilateral, regional, or bilateral), the types of participants (bureaucratic or political), or the nature of the interaction (consultative or decision-making).[11]

Some intergovernmental agencies have mandates to forge a consensus through formal collaboration in managing specific challenges, such as the removal of trade barriers, the sharing of river waters, or cross-border crime. Consultative processes facilitate sharing information and experience among all layers of government, and building up integrated databases for policy making and evaluation. (They also help to tone down adversarial relations in a multiparty system.) A similar role is played by provincial governments in relation to lower levels of government, although cities are increasingly establishing direct relationships with national agencies in a deregulated framework.

In unitary systems, the instruments of intergovernmental relations include administrative coordination and fiscal measures. The "provincialization" process envisages a coordinating and consultative role for the provincial or regional governor and administration, as seen in Indonesia, Japan, the Philippines, Zimbabwe, and other countries. The problems and suspicions in setting up such regional structures in transitional economies were mentioned earlier, as a reaction to control by the center. In countries in the French administrative tradition in Asia and Africa, the representative of the government in the district or region has a significant coordination function in relation to government departments, functional agencies, and local authorities.

National Control of Local Government Activities

It is possible to identify three disfunctional patterns of national control of local government: overcontrol, whereby the subnational governments are merely administrative arms of the central government; undercontrol, whereby each tier of subnational government is almost sovereign and competes with other levels of government; and perverse regulation, whereby local governments have some degree of political autonomy, but perverse incentives characterize the relationship with the central government.[12]

Overcontrol could inhibit the responsiveness of local government. It is therefore desirable to move away from detailed and rigid regulation and ex ante financial control toward managing for due process and results. More helpful are normative controls, such as centrally specified personnel qualifications, design standards for infrastructure, building codes, stress on community and NGO involvement, and, of course, protection of human rights and minorities. Transparency can be promoted by requiring local bodies to publish their budgets, including subsidies for services, in simplified formats.

In addition to its control function, central government also has a positive role to play in facilitating decentralized administration, and in promoting national social goals.[13] Shifts in the style of government intervention, from inquisition to assistance and capacity building, will develop positive attitudes in the local staff.

Fiscal and financial controls are essential; however, these and related issues are discussed in Chapter 8.

Modes of Coordination

The challenge in effective intergovernmental relations is to achieve a balance between achieving autonomy for subnational units and retaining needed control of such units; promoting variety and protecting equity; ensuring responsiveness; and preserving efficiency. What is required is judicious use of the instruments of control, coordination, consultation and accountability, and, most of all, common sense and a positive attitude of cooperation from all sides.

As noted earlier, different actors or different tasks may require different forms of coordination. In general, coordination may be

- horizontal or vertical;
- formal and mandatory, or informal and voluntary;
- structural or procedural; and
- institutionalized or ad hoc.[14]

Vertical coordination between different levels of government seeks to assure top-down policy coherence (Box 5.5). In Australia, for example, the Council of Australian Governments gathers together federal and state ministers, as well as the presidents of the Local Government Association for increased cooperation among governments. Vertical coordination is facilitated by national norms for program goals, and uniform guidelines of financing institutions. Local government associations and councils of mayors are often the main interlocutors with the national and provincial governments on issues affecting local governments. Nordic governments regularly consult such associations on financial matters and legislation affecting local authorities.

Box 5.5
Cooperative Intergovernmental Relations in South Africa

The principle of cooperative governance is articulated in Chapter 3 of the South African Constitution and has proven to be a cornerstone of intergovernmental relations. Where government functions are a shared responsibility of national and provincial governments, as in social services, the national government provides the policy framework while the provinces are responsible for delivery of services. This division of responsibilities, combined with the considerable economic disparities across provinces, requires a coherent coordination process to ensure that expenditure planning is aligned with policy goals and to promote equity in access to social services.

To facilitate this coordination, each of the major government sectors has a forum consisting of the national and provincial ministers where policy issues are discussed. Joint meetings are held between the finance forum and individual sector fora to review both policy issues and budget constraints. These joint meetings enhance understanding of the cost of policy choices and encourage developing alternative methods of delivering services.

The fora for finance, education, health, welfare, and transport are supported by technical committees comprised of officials from the national and provincial line departments and treasuries. These committees deal with policy implementation, developing coherent policy within sectors, norms and standards for service delivery, evaluating the affordability of policy choices, and other technical issues. A key focus of the technical committees for the near future is developing service delivery indicators against which to measure government performance.

Source: Laura Walker, personal communication, May 2000.

Horizontal coordination takes place among agencies operating at the same level of government, or between local government and the corresponding civil society. In France, the provincial prefect coordinates procedures for major public works through consultation with local authorities, agencies, and economic and social bodies. The regional planning mechanism in many countries involves consultation with all local authorities and field agencies of ministries, to ensure coordinated investment policies and complementary programs. For example, former Malaysian Deputy Prime Minister Tunku Abdul Razak listed interdepartmental jealousy, lack of day-to-day cooperation, and lack of sufficient direction from the top among the "seven deadly sins" that obstruct the administration of rural development programs.

Horizontal coordination has to contend with vertical functional monoliths, such as health and education agencies, which resist collaboration with other agencies, as well as direction by elected local political executives and the officials designated to coordinate the agencies on behalf of governments. The experience with the District Autonomy Pilot Program in Indonesia illustrates this point.[15] District-level poverty reduction programs or integrated urban infrastructure programs in many countries show the substantial scope for horizontal coordination. These programs are articulated through local elected bodies, and are based on the full involvement of community representatives and civil society (Box 5.6).

Box 5.6
Broadening the Range and Deepening the Base

A systematic approach to coordination involves broadening the range and deepening the base of relationships between actors. "Broadening the range" includes introducing flexible modes of operation or new forms of intragovernmental cooperation, and joint work by different agencies. Ten national and city government agencies came together in Cali, Colombia, to launch an integrated slum upgrading program in consultation with the residents. A similar approach was followed in the Malaysian NADI social development program and the Colombo slums, and the targeting of assistance to the poorest households in Seoul by the Bureau of Social Affairs of Seoul City. The independent low-cost sewer system developed by the community in Orangi (Karachi, Pakistan) developed into a collaboration with the municipal authority, not only for citywide sanitation, but also for other social services needed by the poor.

"Deepening the base" operates in a number of ways: through decentralization and area-based service delivery, by integrating local agencies; through increased consultation in service delivery; through public-community partnerships; and through facilitating technical assistance by networked civil society groups to communities and poorly equipped voluntary groups. In Argentina, India, Sri Lanka, Zambia, and a number of other countries, national and municipal authorities get together to operate citywide programs of basic urban services, with community participation. The FUNDASAL in El Salvador operated for many years as the leading producer of urban housing units for low-income groups, with formal support and financing from the Government. Similarly, national women's cooperative networks have been recognized in India and elsewhere for women's welfare and development, savings mobilization, and training, in concert with city and state agencies.

Source: UN Center for Human Settlements. 1990. "Roles, Responsibilities and Capabilities or the Management of Human Settlements". Nairobi.

Coordination is an essential ingredient not only in policy formulation but also during implementation. Lack of interaction can damage well-designed policies, as in the case of Indonesia where the central ministries formulated and implemented decentralization policies with very little discussion among themselves, leading to uncoordinated activities, conflict, and duplication (Box 5.7). The central ministries were more committed to achieving the development and activities of their own departments than to ensuring that local governments are provided with the necessary logistics for decentralization. The reason, as always, was that the incentives for assisting local governments were much weaker than those attached to the ministries' own activities.

Box 5.7
Poorly Coordinated Decentralization in Indonesia

Although the legal framework for decentralization was established in 1979, the Indonesian Government remained a highly centralized structure. In April and May 1999, the Indonesian Parliament passed two laws to replace the laws that defined the decentralization system in the country. Law 22 revised the assignment of functions and roles of institutions at all levels of government, and Law 25 defined the financing system for devolution, deconcentration, and coadministration of government functions. In some ways, the laws have improved the legal framework of the Indonesian decentralization system, although there were problems in the initial stages.

Problems during implementation further hampered the smooth and successful transition from a centralized to a decentralized administration. Five working groups were formed to draft implementing regulations, and to plan and monitor the implementation process. However, the activities of the groups were not coordinated and harmonized because of lack of interaction among the ministries. Duplication of regulations and policies and unnecessary competition among the ministries concerned resulted. The Ministry of Home Affairs claims that 30 more decrees are needed to support the decentralization laws. It is drafting seven or eight decrees to implement the Regional Law, and the Ministry of Finance is drafting six implementing regulations to support the Fiscal Law. But it is claimed that hundreds and even thousands of local regulations still have to be passed to complete the system. It may take years for Indonesia to start working as a decentralized system.

Source: Claudia Buentjen, personal communication, March 2000.

KEY POINTS AND DIRECTIONS OF IMPROVEMENT

Key Points

Decentralization has been transforming the structure of governance in many countries in recent decades. It has taken place for different reasons, and mainly improving the effectiveness of public service delivery; raising the quality of governance by empowering the local communities; and reducing the risk of national fragmentation along regional and ethnic lines. Decentralization encompasses a variety of different measures, depending on the degree of autonomy of the subnational entities from the central government. Obviously, such autonomy is greater in federal states than unitary states. Generally, the decentralization continuum progresses from deconcentration through delegation to full devolution. Deconcentration is the first stage of decentralization: it shifts responsibility for a service to central government staff working in the region, province, or district, but does not transfer the central government authority. Delegation involves, in addition, the granting of exemptions from certain central rules and broad authority to plan and implement decisions without direct central government supervision. Devolution entails the full transfer of certain functions from the central government to subnational government units—although the central government normally retains some monitoring and financial role.

The economic rationale for decentralization rests on Oates' "decentralization theorem," which states that a public service should be provided by the jurisdiction having control over the minimum geographic area that would internalize the benefits and costs of such provision. The theorem is pretty difficult to apply in practice. A simpler rule is the "subsidiarity principle" applied by the European Union, according to which taxing, spending, and regulatory functions should be exercised by the lowest posible level of government unless a convincing case can be made for assigning these functions to higher levels of government.

The potential gains of decentralization derive basically from the close contact local government institutions can have with local residents. Decentralization can (i) encourage public participation in government decision making; (ii) create opportunities for more accountable government; (iii) provide more transparent government; and (iv) ease financial strain on the central government. Decentralization can therefore result in more flexible and effective government administration because (i) government

can tailor its services to the different needs of society, and foster political stability and national unity and (ii) and civil society organizations are given a stake in maintaining the political system.

However, decentralization also carries potential costs and risks, especially when it is an ad hoc reaction to an urgent problem instead of a carefully designed structural reform. Decentralization can cause duplication, waste, underemployment of government staff and equipment, coordination problems, and regional inequities and societal conflicts. Decentralization also has a positive or negative impact on governance. The generic test is whether the legitimacy and quality of governance are higher at local level than at national level. If the answer is no, decentralizing into a comparatively worse governance climate will tend to worsen the quality of governance in the country as a whole.

In *geographic decentralization*—the manner in which state territory is divided into smaller areas with specific authority—the basic principle is to match area to function, i.e., first define clearly the nature and scope of government functions, and on this basis, delineate the area within which the functions are to be performed. Other approaches include the community approach, which considers social geography; the *efficiency* approach, which considers the costs of producing the service; the *management* approach, which considers the relative organizational capacity of levels of government; the *technical* approach, based on the resources, landscape, or economy of different regions; and the *social* approach, which considers the natural affinity of inhabitants of the different parts of the national territory.

The desirable degree of decentralization, of course, depends largely on the specific function under consideration. Actual experience and sound theory show that certain functions are closely associated with particular levels of government. For example, defense or monetary policy is most often assigned to the national government; education, health, and social welfare to the provincial levels; and fire protection and water supply to local government. However, different functional assignments are possible, especially in the case of small city-states, and any general classification of functions should be considered indicative rather than prescriptive.

Political decentralization shifts decision-making powers to lower levels of government and entails setting the legal and regulatory provisions to ensure that (i) a favorable political environment for decentralized decision making is created; (ii) decentralized entities coordinate and cooperate with

each other; (iii) decentralization initiatives are sustained and acquire a degree of political permanence; (iv) decentralized entities act in conformity with national standards; and (v) citizens have access to local decision making.

Political decentralization is linked with *administrative decentralization,* i.e., creation of new organizations and local performance of certain administrative tasks. However, the reverse is not true: administrative decentralization does not necessarily require political decentralization. As noted, through deconcentration, subnational government can perform a myriad of administrative tasks and yet have no autonomous decision-making powers.

In a decentralized setting, coordination and close intergovernmental relations are critical not only for the strategic coherence of government but also for the preservation of a national identity.

Directions of Improvement

Experience worldwide shows that decentralization can be a mechanism to improve political stability, deliver service more efficiently and effectively, reduce the level of poverty, and promote equity. Governments intending to decentralize functions should note the following general principles.

- Decentralization should be understood as a means rather than an end in itself. The goal is to heighten the overall quality of governance.
- There needs to be consensus and support from different sectors for adopting decentralization measures.
- In cases where decentralization is a new development, subnational governments should be given time to learn and gradually adapt to the new system. In parallel, control and regulatory mechanisms should be instituted to guide subnational government operations.
- Decentralization should be a sequenced set of well-conceived policies and implementation of policies should be carefully planned and executed. The risks of hasty action are particularly great in developing countries.
- Normally, the country's constitution should embody the broad outlines of decentralization, enabling laws the specific parameters, and administrative rules the details of implementation. In countries where decentralization laws were made piecemeal, it is highly advisable to

codify all legislation relating to decentralization to maintain coherence and spot duplication and inconsistencies.

- Ensure that mechanisms for public participation and autonomous decision making are installed in the legal and regulatory framework and institutionalized in implementation. Subnational governments must be directed to encourage citizens to participate in decision making.
- Specify the responsibilities for each level of government, and those to be jointly shared by the central and subnational governments. To avoid turf competition and confusion, it is important to be clear about which particular functions are to be delegated, deconcentrated, and devolved. Deconcentrate functions that are national in scope and over which the center wishes to have direct control; delegate special and highly technical functions; and devolve functions that are local in scope.
- To the extent practicable, government functions should be assigned to the lowest possible level of government. There should be a convincing justification, such as spillover and externalities, for assigning them to higher levels of government.
- Ensure that subnational governments are capable to carry out functions and responsibilities transferred to them. Transfer of functions and authority to subnational governments needs to be matched with transfer of appropriate technology, skills, and financial and manpower resources.
- Ensure human resource development and organizational capacity building until the time when subnational governments can independently sustain their own needs.
- Especially in devolution, central government needs to enact regulation to ensure national standards of public services and prevent local government actions from interfering with or contradicting national policies and goals.
- Allow some flexibility to local government in implementing decentralization mandates.

It is important that government enforce vertical coordination among different levels of government, and encourage horizontal coordination among agencies and subnational government at the district and city level. Interagency coordination should lead to convergent actions by field agencies, avoiding duplication of local staff and programs, and exploiting economies of scale. Caution should be taken to avoid both overregulation and undercontrol by central government.

NOTES

[1] Fiscal decentralization is distinct from the use of subsidies and taxes to encourage or discourage economic activity or migration from one geographic area to another, which are instruments of central government power for national purposes.

[2] This section derives mainly from Rondinelli and Cheema, eds. (1983).

[3] Some political scientists define devolution and decentralization as separate processes: devolution as the dispersal of power and authority, and decentralization as the geographic and territorial subdivision of the state. The definitions we provided earlier, however, are more operational.

[4] W. Dillinger (1995).

[5] Rondinelli (1983), Ter-Minassian, ed. (1997), Bahl (1998, 1999).

[6] This section draws from Smith (1985). Please refer to that book for a detailed discussion of the subject.

[7] Blunden, Brook, Edge, and Hay, eds. (1973).

[8] This ideology found its extreme pathological and murderous expression in the Pol Pot regime in Cambodia from 1975 to 1979.

[9] Drawn from Ford in Litvack and Seddon, eds. (1999).

[10] This section has drawn on OECD (1997a), Dillinger (1994), Davey (1993), Asian Development Bank (1998b), and World Bank (1997).

[11] OECD (1997a).

[12] Dillinger (1994).

[13] Tendler (1998).

[14] OECD (1997a).

[15] Asian Development Bank (1998b).