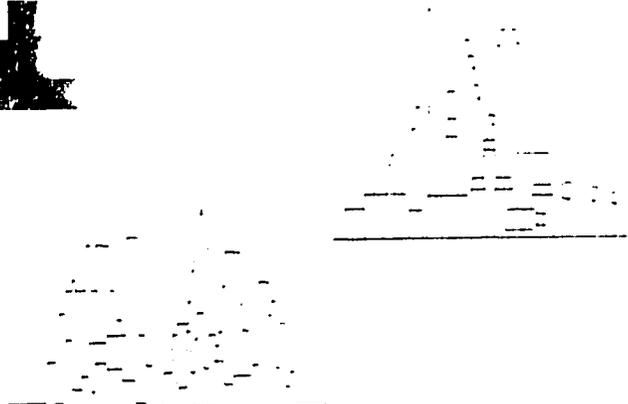
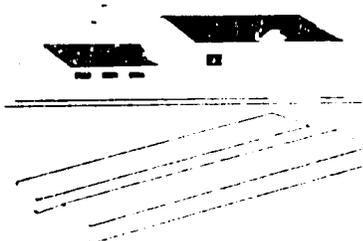


DRAFT

OPERATIONAL MANUAL

ANALYZING DECENTRALIZATION OF HOUSING
AND URBAN DEVELOPMENT PROGRAMS



Office of Housing and Urban Programs
U.S. Agency for International Development
Washington, D.C.

DRAFT

OPERATIONAL MANUAL

ANALYZING DECENTRALIZATION OF HOUSING AND URBAN DEVELOPMENT
PROGRAMS

by

DENNIS A. RONDINELLI

Research Triangle Institute
Research Triangle Park, North Carolina

for

Office of Housing and Urban Programs
U.S. Agency for International Development
Washington, D.C.

Project No. IQC PDC-000-I-00-6169-00

1989

CONTENTS

INTRODUCTION	1
Ineffective Provision of Urban Services by Central Governments.....	1
FRAMEWORK FOR ANALYSIS OF DECENTRALIZATION POLICIES.....	2
I. ANALYSIS OF POLICY ISSUES: DETERMINING THE NEED FOR DECENTRALIZATION.....	2
Step I-1: Assessing the Central Government's Role in Urban Development Activities.....	5
Step I-2: Assessing Alternative Forms of Decentralization.....	6
Step I-3: Assessing the Potential Benefits of Decentralization....	9
Step I-4: Assessing the Potential Limitations or Weaknesses of Decentralization.....	10
II. ANALYSIS OF FEASIBILITY OF DECENTRALIZING RESPONSIBILITY FOR FINANCING AND MANAGING URBAN DEVELOPMENT ACTIVITIES.....	11
Step II-1: Preliminary Assessment of Political Support for Decentralization.....	12
Step II-2: Analysis of the Characteristics of Urban Goods and Services and Their Providers and Users.....	13
Step II-3: Analysis of the Financial Options for Decentralization of Urban Services and Infrastructure.....	19
Step II-4: Analysis of Organizational Alternatives.....	26
Step II-5: Assessing Socio-Economic and Organizational Factors Affecting Implementation.....	39
Step II-6: Selecting an Implementation Strategy.....	39

LIST OF EXHIBITS

EXHIBIT 1	FRAMEWORK FOR ANALYZING DECENTRALIZATION POLICY ISSUES.....	3
EXHIBIT 2	FRAMEWORK FOR ANALYZING FEASIBILITY OF DECENTRALIZING FINANCING AND MANAGEMENT OF URBAN DEVELOPMENT ACTIVITIES.....	4
EXHIBIT 3	FACTORS AFFECTING ORGANIZATION AND FINANCING OF URBAN SERVICES.....	14
EXHIBIT 4	ASSESSING THE SOCIO-ECONOMIC CHARACTERISTICS OF URBAN SERVICE USERS.....	16
EXHIBIT 5	COMPONENTS OF MUNICIPAL MANAGEMENT ASSESSMENT.....	17
EXHIBIT 6	ADVANTAGES AND DISADVANTAGES OF USER CHARGES.....	21
EXHIBIT 7	ADVANTAGES AND DISADVANTAGES OF INTERGOVERNMENTAL TRANSFERS.....	23
EXHIBIT 8	ADVANTAGES AND DISADVANTAGES OF MUNICIPAL DEVELOPMENT FINANCIAL INSTITUTIONS.....	25
EXHIBIT 9	ADVANTAGES AND DISADVANTAGES OF FIELD ADMINISTRATION.....	28
EXHIBIT 10	REFORMING PUBLIC ENTERPRISES IN DEVELOPING COUNTRIES.....	30
EXHIBIT 11	POTENTIAL ADVANTAGES OF MUNICIPAL AND LOCAL GOVERNMENTS....	31
EXHIBIT 12	PROGRAMS NEEDED TO STRENGTHEN MUNICIPAL MANAGEMENT CAPACITY.....	33
EXHIBIT 13	PRINCIPLES FOR ORGANIZING SELF-HELP URBAN SERVICES AND INFRASTRUCTURE PROGRAMS.....	34
EXHIBIT 14	POTENTIAL ADVANTAGES AND DISADVANTAGES OF CONTRACTING.....	37
EXHIBIT 15	ADVANTAGES AND DISADVANTAGES OF PRIVATE SECTOR PROVISION OF URBAN SERVICES.....	38
EXHIBIT 16	FACTORS SUPPORTING THE SUCCESSFUL IMPLEMENTATION OF DECENTRALIZATION.....	40

INTRODUCTION

The demand for urban services and physical infrastructure in developing countries is increasing as the populations of cities grow and as expectations of achieving better living conditions rise. Urban services and infrastructure not only contribute to social welfare, but also enhance the productivity of the urban labor force, allow markets to work more effectively, and create opportunities for employment and entrepreneurship in cities and towns.

Governments in developing countries play important roles in urban development; the services and infrastructure they supply can improve the efficiency of urban economies. First, they provide basic physical infrastructure such as streets, water systems, sewerage systems, energy and utility systems, and essential services such as garbage collection, waste disposal and fire and police protection. Second, they provide services such as education and public health programs that develop human resources, improve labor productivity and raise the standards of living for urban residents. Third, they regulate private activities that affect community welfare and the health and safety of the urban population. And, finally, they provide services and facilities that support urban economic activities and allow private enterprises to operate efficiently in cities.

Ineffective Provision of Urban Services by Central Governments

In many developing countries, however, urban services and infrastructure are either provided by central governments ineffectively and inefficiently, or by community organizations and private businesses only sporadically. Local institutions often lack the incentives, adequate funds, technical expertise, and management capacity to provide the urban services needed for economic growth. Furthermore, in most developing countries, the maintenance of facilities and infrastructure in urban areas is notoriously poor. As a result, public facilities deteriorate quickly.

The problems of providing and maintaining urban services and infrastructure have brought increasing calls for decentralization and privatization. Many governments are now decentralizing responsibilities for financing and managing urban development activities. The questions of which services should be decentralized, how they should be financed, which organizational arrangements are most feasible and effective, and how decentralization policies can be better implemented, however, remain open and in some countries hotly debated.

DRAFT

FRAMEWORK FOR ANALYSIS OF DECENTRALIZATION POLICIES

This operational manual offers a framework that international assistance agencies can use to analyze proposed decentralization policies and programs. It draws on the current state of knowledge and experience with decentralization to identify factors that should be considered in preparing for policy dialogue and in formulating decentralization programs and projects. It outlines a process for assessing the feasibility of decentralizing urban services, facilities and infrastructure.

Detailed information about each stage of the process is found in an accompanying resource report, Decentralization of Urban Development Programs: Concepts and Guidelines. Readers who are interested in understanding more about how to carry out the analyses recommended here should refer to the resource report.

This document is divided into two sections.

The first section discusses policy issues that are crucial for understanding why decentralization may be necessary and the scope and severity of problems with central government financing and management of urban development programs. Analysis of general policy issues can help donors to prepare for policy dialogue with host country governments and to assess the prospects for successfully decentralizing responsibility for urban development activities.

Exhibit 1 describes four components of this phase of the analysis. Chapters One and Two of the resource report describe these policy issues in more detail.

The second section outlines a process for analyzing the feasibility of decentralizing financial and management responsibilities for urban services, facilities and infrastructure.

Exhibit 2 lists the components of this phase of the analysis. Chapters Three to Six of the resource report provide background information.

I. ANALYSIS OF POLICY ISSUES: DETERMINING THE NEED FOR DECENTRALIZATION

Before donors can begin to assess the feasibility of decentralizing financial and management responsibilities for urban services, facilities, or infrastructure, they should assess 1) the current role of the central government in providing urban services; 2) alternative forms of

EXHIBIT 1

FRAMEWORK FOR ANALYZING DECENTRALIZATION POLICY ISSUES

Phase I. ANALYSIS OF POLICY ISSUES

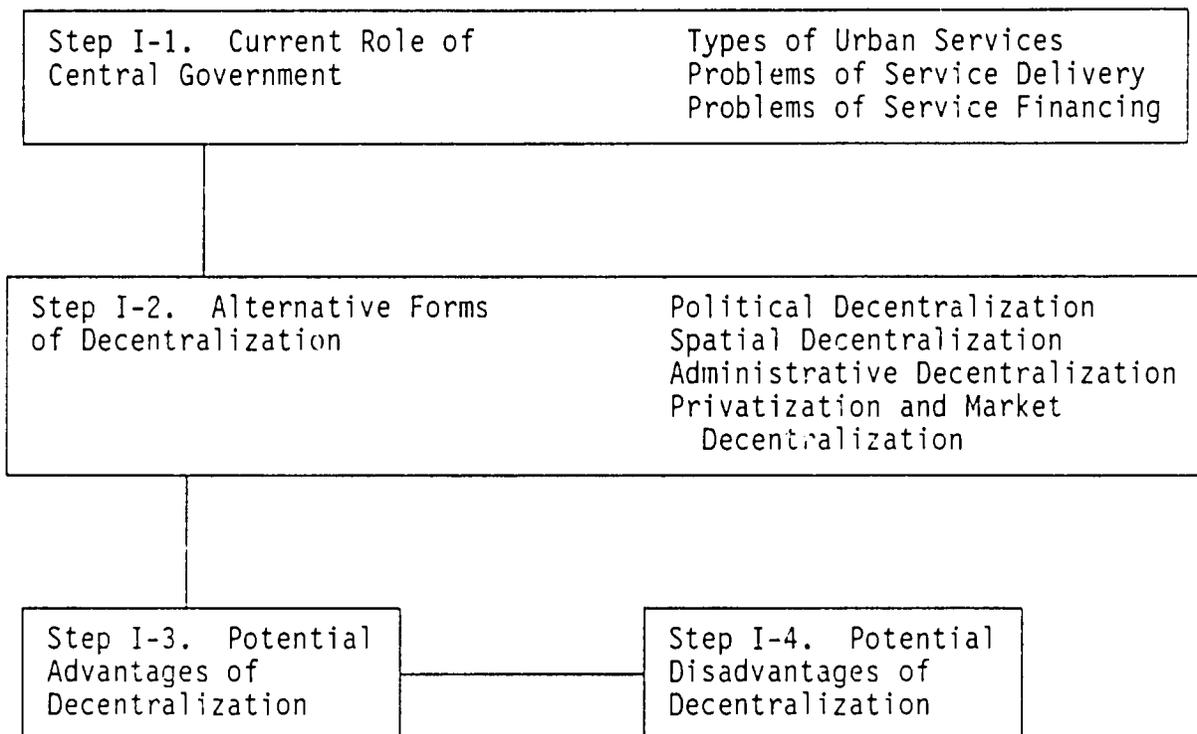
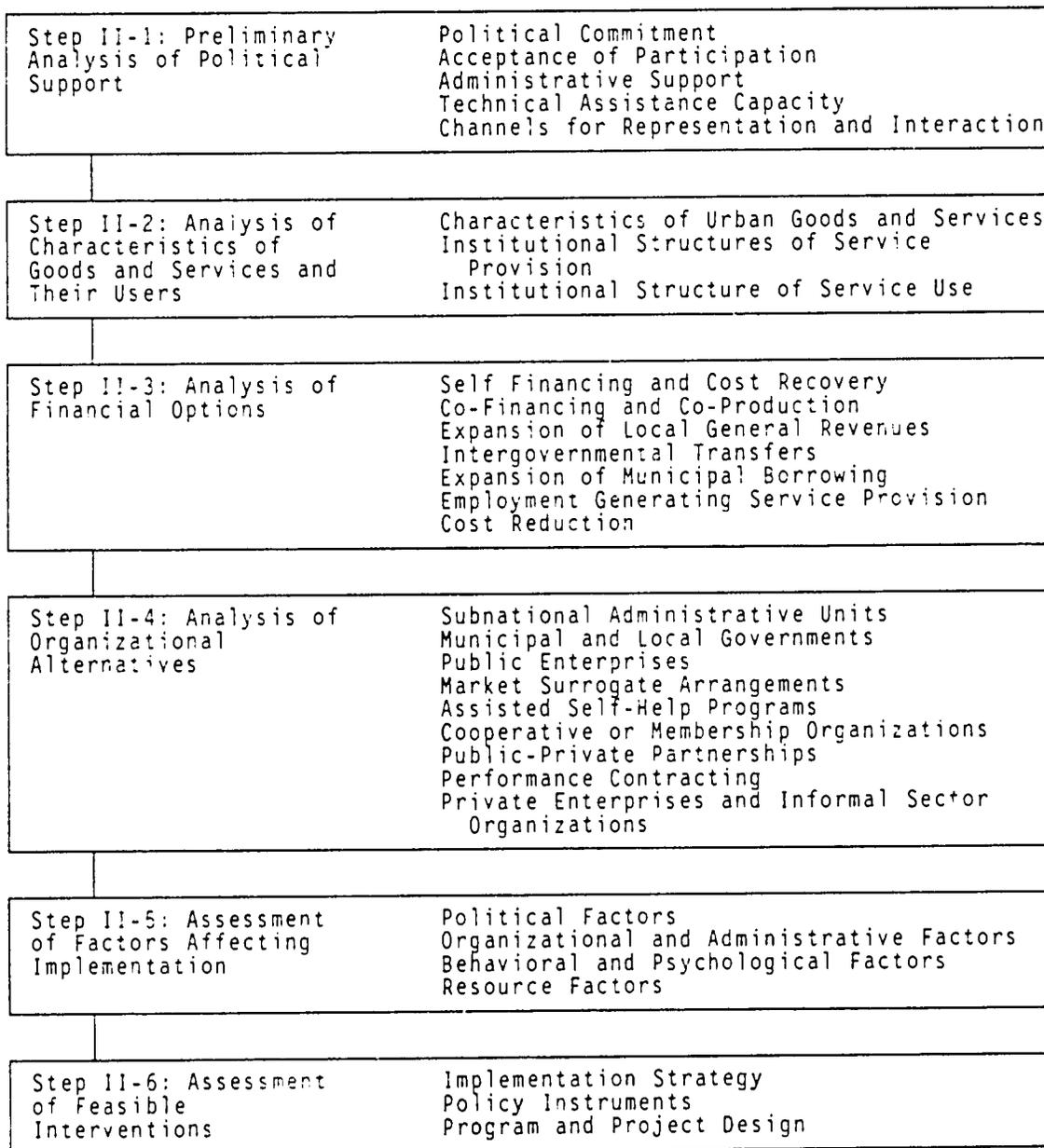


EXHIBIT 2

FRAMEWORK FOR ANALYZING FEASIBILITY OF DECENTRALIZING FINANCING AND MANAGEMENT OF URBAN DEVELOPMENT ACTIVITIES

Phase II. ANALYSIS OF FEASIBILITY OF DECENTRALIZATION



decentralization that are likely to overcome current problems; 3) the potential advantages of decentralization; and 4) its potential limitations.

Each of these components is discussed below, and in more detail in Part I of the resource report.

Step I-1: Assessing the Central Government's Role in Urban Development Activities

Analysts should begin with an assessment of the central government's current role in financing and managing urban services and infrastructure. This is necessary because central government ministries and agencies in most developing countries, for a variety of reasons, are poorly organized to manage urban development activities. Chapter One [Sections 1.2.2 to 1.2.5] of the resource report describes these problems in detail.

Among the questions that analysts should raise at the outset are the following:

- How concerned are central government ministries and agencies with providing and maintaining urban services of adequate quantity and quality to meet the needs and demands in urban areas?
- Do incentives exist for central government ministries to perceive urban residents as their clientele and to define their major functions as satisfying their needs?
- Are central ministries staffed with technicians and professionals who are more concerned with the glamorous and professionally satisfying tasks of constructing large-scale, capital intensive projects rather than with the routine aspects of service delivery and maintenance?
- Do central ministries provide network-based services, facilities and infrastructure are expensive to maintain and that are more elaborate and technologically advanced than local populations need?
- Are the services and infrastructure provided by central governments perceived by citizens as free public goods to which they are entitled, rather than as resources for which they should pay?
- Does price rationing operate effectively to relate the supply of urban services to real demand? Are services provided at quantity or quality levels that meet real demand as measured by willingness to pay? Is the willingness to pay for urban services accurately estimated by central government agencies?
- Are financial constraints on the national government restricting its capacity to meet the needs for urban services and infrastructure? Will national debt burdens or the need to curtail total public sector obligations diminish the role of the central government in providing urban services and infrastructure in the future?
- Does the role of the central government in providing urban services and infrastructure, or do central government controls over municipalities, weaken the capabilities of local institutions to provide urban services, facilities or infrastructure?

The assessment of the central government's role in urban service and infrastructure provision should focus on current and potential problems that decentralization might help to overcome.

Step I-2: Assessing Alternative Forms of Decentralization

Decentralization embraces a variety of concepts, the feasibility of which must be carefully analyzed. We can define administrative decentralization as "the transfer of responsibility for planning, management, and the raising and allocation of resources from the central government and its agencies to field units of government agencies, subordinate units or levels of government, semi-autonomous public authorities or corporations, area-wide, regional or functional authorities, or non-governmental private or voluntary organizations."

We can also define decentralization as a situation in which public goods and services are provided primarily through the revealed preferences of individuals by market mechanisms. Public choice theorists contend that under conditions of reasonably free choice, some public goods are provided more economically and efficiently when a large number of public and private institutions are involved than when only the central government is the provider.

The concepts of decentralization are discussed Chapter Two of the resource report.

Analysts should distinguish among at least four different types of decentralization:

- Political decentralization
- Spatial decentralization
- Administrative decentralization
- Privatization and market decentralization

Each of these concepts has different characteristics and policy implications.

Political Decentralization. Political decentralization gives more political power for decision-making to citizens or to their elected representatives. Political decentralization is usually associated with representative government, citizen participation, and democratization. [See Section 2.1 of the resource report].

Political decentralization is frequently associated with democratization because it allows citizens, or their representatives, to influence the formulation and implementation of policies more effectively than if all decisions were made by a small political elite or only by national political authorities.

Decentralization can lead to democratization and greater political participation if both political power and administrative decision-making authority are dispersed more widely throughout society. But the concepts of administrative and political decentralization are not the same.

Spatial Decentralization. Spatial decentralization is a process of diffusing urban population and economic activities geographically among settlements of different sizes to prevent or reverse high levels of concentration in one or two large metropolitan areas. Governments usually attempt to influence the process of spatial decentralization by distributing central government investments in services, facilities, infrastructure and other resources in a way that will strengthen the economies of secondary cities and small towns. Most spatial decentralization policies aim at achieving a more "balanced" pattern of urban development. [See Section 2.2 of the resource report.]

Although they differ conceptually and in their policy implications, spatial and administrative decentralization can and should reinforce each other. As more cities and towns grow in population and diversify economically, it becomes more difficult and costly for the central government to provide local services and infrastructure efficiently.

Administrative Decentralization. Administrative decentralization is concerned with the allocation of responsibilities for urban development activities within the public sector. Analysts should distinguish among three different forms of administrative decentralization: deconcentration, delegation and devolution.

a. Deconcentration. Some types of public goods can only be provided effectively by government, either at the central level or by some agent of the central government at the local level. These are often services that require large investments in capital equipment, and that must be linked together in a system or network in order to operate effectively. Those services that have high political saliency or sensitivity, those from which a politically important group such as the poor or an ethnic minority would be excluded if they were provided privately, or those with strong impacts on public health, safety or welfare, are usually provided by central governments. [See Section 2.3.1 of the resource report.]

If political leaders are unwilling to decentralize these services, analysts must be prepared to assess how central government ministries can provide the services more efficiently and effectively. There are institutional arrangements--the creation of field offices or market surrogates, for example--that can help to make service delivery more efficient and more responsive to users' needs.

The least extensive form of decentralization, but an important step in highly centralized countries, is deconcentration of central government institutions. In its weakest form, deconcentration merely shifts some of

the workload from central government ministry headquarters to staff located in offices located outside of the national capital. But in highly centralized governments even shifting workload can be a crucial first step that allows agencies to be more responsive and that can lead to greater decentralization later.

b. **Delegation.** In some cases, the central government may decentralize by transferring responsibility for producing goods and supplying services to parastatal or public corporations or to publicly regulated private enterprises. More often, government transfers responsibilities to organizations representing specific interest groups in society that are established and operated by members of those organizations. These include cooperative organizations, trade unions, or women's and youth clubs. [See Section 2.3.2 of the resource report.]

Delegation gives broad authority to plan and implement decisions concerning specific urban development activities--or a variety of activities within specific territorial boundaries--to a semi-autonomous public organization that has the technical and administrative capability to carry them out.

c. **Devolution.** The provision and maintenance of urban services can often be improved by devolving responsibilities to local governments. Devolution implies that local governments have some legal autonomy and independence and are clearly perceived of as a separate level of government over which central authorities exercise only indirect controls. Local governments should have clear and legally recognized geographical boundaries over which they exercise authority and within which they perform public functions. [See Section 2.3.3. of the resource report.]

Devolution is an arrangement in which there are reciprocal, mutually benefitting and coordinated relationships between central and local governments. This means that local governments have the ability to interact reciprocally with other units in the system of government of which they are a part.

Privatization and Market Decentralization. There is a growing interest among governments in developing countries in privatizing urban services and facilities. Through privatization and deregulation governments divest themselves of responsibilities for functions either by transferring them to voluntary organizations or by allowing them to be performed by private businesses. [See Section 2.4 of the resource report.]

Privatization is usually accompanied by market decentralization or economic liberalization policies. These policies remove unnecessary and costly restrictions on private enterprises, allowing them to provide goods and services or to compete with parastatal organizations. Privatization also includes public-private partnerships and contracting with the private sector to provide public services.

Private voluntary organizations and private enterprises can play a crucial role in expanding the access of urban residents to services and infrastructure. In many developing countries they run day-care centers, nursery schools, health clinics, homes for destitute children, and old age homes, and provide vocational training, non-formal education, and sports and recreation facilities.

Analysts should attempt to determine which concepts of decentralization government policies are promoting, assess their appropriateness for the goals being pursued, identify the implications for implementing the policies effectively, and begin to identify alternatives or modifications.

Step I-3: Assessing the Potential Benefits of Decentralization

Decentralization is neither an end in itself nor a universal solution to the problems of coping with urban development. Under appropriate conditions, decentralization can improve the efficiency and effectiveness of financing and managing some, but not all, urban services and facilities.

The growing interest in decentralization arises from its potential benefits. Analysts should review policies, laws and proclamations to determine both the official and unofficial reasons why the government is pursuing decentralization. [See Section 2.5.1 of the resource report.]

Among the most frequently cited reasons for decentralizing financial and administrative responsibility for urban development activities are that decentralization can:

- Help to overcome the severe limitations of central planning and management by delegating greater authority for financing and managing urban development programs to officials or organizations working closer to the problems.
- Increase the efficiency of the central government by relieving top officials of routine tasks that could be more effectively performed by other organizations.
- Allow local officials to cut through the enormous amounts of "red tape" and the inflexible procedures that characterize central government bureaucracies in developing nations.
- Allow greater representation for various political, religious, and ethnic groups in urban development decision-making.
- Lead to the development of greater administrative capability among local governments and private institutions in cities and towns, especially for performing functions that are not usually performed well by central ministries, such as the maintenance of roads, health clinics or schools.
- Lead to a better assessment of the relationships between costs and revenues and more flexibility in responding to service needs and financial constraints.

- Elicit the participation of citizens in urban development planning and management by facilitating the exchange of information about community needs and channelling local political demands to municipal governments and national ministries.
- Lead to more flexible, innovative and creative administration of urban development programs by giving municipal governments, nongovernmental organizations, and private businesses in cities potentially greater opportunities to test innovations and to experiment with new policies and programs.
- Allow local leaders to locate services and facilities more efficiently within communities, and to monitor and evaluate the implementation of development projects more effectively than can be done by central government agencies.
- Provide the opportunity for organizational and social learning by allowing institutions to offer the types of services desired by people with different needs and preferences.

Analysts should determine the degree to which decentralization is likely to benefit central government ministries, local organizations and service users.

Step I-4: Assessing the Potential Limitations or Weaknesses of Decentralization

Although decentralization can broaden participation in decision-making and improve the efficiency of urban service delivery and infrastructure maintenance, it is not always an appropriate prescription for solving all urban development problems. Some services--especially those that are standard, routine, network-based, capital intensive, and targeted for a homogeneous clientele--can sometimes be provided more effectively and efficiently by central government ministries. Moreover, central government agencies are often more effective at providing services to very poor groups and at redistributing financial resources among cities and towns.

Analysts must identify potential problems with or limitations of decentralization. [See Section 2.5.2 of the resource report.]

Among the most frequently found problems are the following:

- Even when decentralization is appropriate, the process of decentralization is often difficult to implement in developing countries because of political opposition or inadequate administrative capability.
- The tendency of central governments to transfer responsibilities and obligations to local organizations without transferring revenues or the capacity to mobilize resources can undermine decentralization policies.
- Devolution of authority may be resisted by those who receive it because they distrust the central government's willingness to provide adequate resources to do the job, and fear that the resulting failure will be blamed on them.

- Inappropriate policies of privatization and deregulation can lead to inequities in the distribution of services among different income groups and have adverse social and economic effects.
- Privatization can result in the creation of monopolies that can become as inefficient and ineffective as public bureaucracies.
- Large groups of people with low incomes can be excluded from obtaining goods and services when they are privatized or deregulated.
- Extensive deconcentration and delegation can lead to serious problems of coordinating services and development activities in urban areas.
- Decentralization can become a means by which central governments simply divest themselves of obligations for performing important but costly or politically unpopular social functions.
- Privatization may be slow to take hold in countries where there is deep suspicion of the motivations or operations of the private sector in urban development.

Policy analysts must use a variety of criteria to determine what degree of centralization or decentralization is necessary to provide urban services and infrastructure most effectively.

Experience suggests that the potential political, economic and social impacts of decentralization must be assessed early in the design stage if policies and programs are to be implemented effectively.

The second section of this operational manual describes a framework for analyzing and planning for decentralization of urban development activities.

II. ANALYSIS OF THE FEASIBILITY OF DECENTRALIZING URBAN DEVELOPMENT ACTIVITIES

After they assess these major policy issues, analysts must focus on assessing the feasibility of decentralizing responsibility for financing and managing specific urban services, facilities and infrastructure.

The analysis includes six components:

- Preliminary analysis of political support for decentralization;
- Analysis of the characteristics of local goods and services and their providers and users;
- Assessment of alternative financial options;
- Analysis of organizational alternatives;
- Assessment of socio-economic and organizational factors affecting the implementation of decentralization; and,
- Selection of feasible policy interventions.

Chapters Three through Six of the resource report provide detailed information about each of these phases of the analysis.

Step II-1: Preliminary Assessment of Political Support for Decentralization

Given the long tradition of central control over urban services and infrastructure in many developing countries, any attempt to analyze the feasibility of decentralization must begin by gauging the strength of political and administrative support among national and local political leaders. The problems of implementing decentralization policies are often rooted in weak political support. [See Section 3.1 of the resource report.]

Analysts should focus their investigation on the following types of questions:

- How strong is political commitment and support from national leaders for transferring planning, decision-making and managerial authority to field agencies or to lower levels of administration?
- Will political leaders accept participation in urban services planning and management by organizations that are outside of the direct control of the central government or of the dominant political party?
- How strong is the support of central ministries involved in urban services provision to transferring functions previously performed by them to local units of administration or to nongovernmental organizations?
- Is there adequate administrative and technical capacity within central government agencies and ministries to carry out national development functions and to support nongovernmental or private organizations in performing decentralized functions?
- Are there now, or is it possible to create, effective channels of political participation and representation for urban residents that will allow them to express their needs and demands and press claims for national and local financial resources?

Policy analysts should have a clear idea of which groups and organizations are likely to benefit from decentralization, which groups and organizations are likely to perceive a loss of power and resources, and the degree of political support and opposition that is likely to arise from proposals to decentralize particular types of functions.

Political support and opposition to policy proposals usually crystallize only after the government proposes specific programs. Although it is necessary to make a preliminary assessment of political support for decentralization, more detailed analyses of the political, organizational, behavioral and resource factors affecting the implementation of proposals for decentralization must be made again after specific financial and organizational arrangements are assessed. Chapter Six of the resource report describes these factors more thoroughly.

Step II-2: Analysis of the Characteristics of Urban Goods and Services and their Providers and Users

In order to assess the feasibility of decentralization, policy analysts must identify the characteristics of local goods and services, of service providers, and of service users. Chapter Three of the resource report discusses these elements of the analysis.

Characteristics of Urban Goods and Services. Analysts can use the following classification of the characteristics of urban goods and services to determine the most efficient and effective way of financing and organizing them. [See Section 3.2.1 of the resource report.]

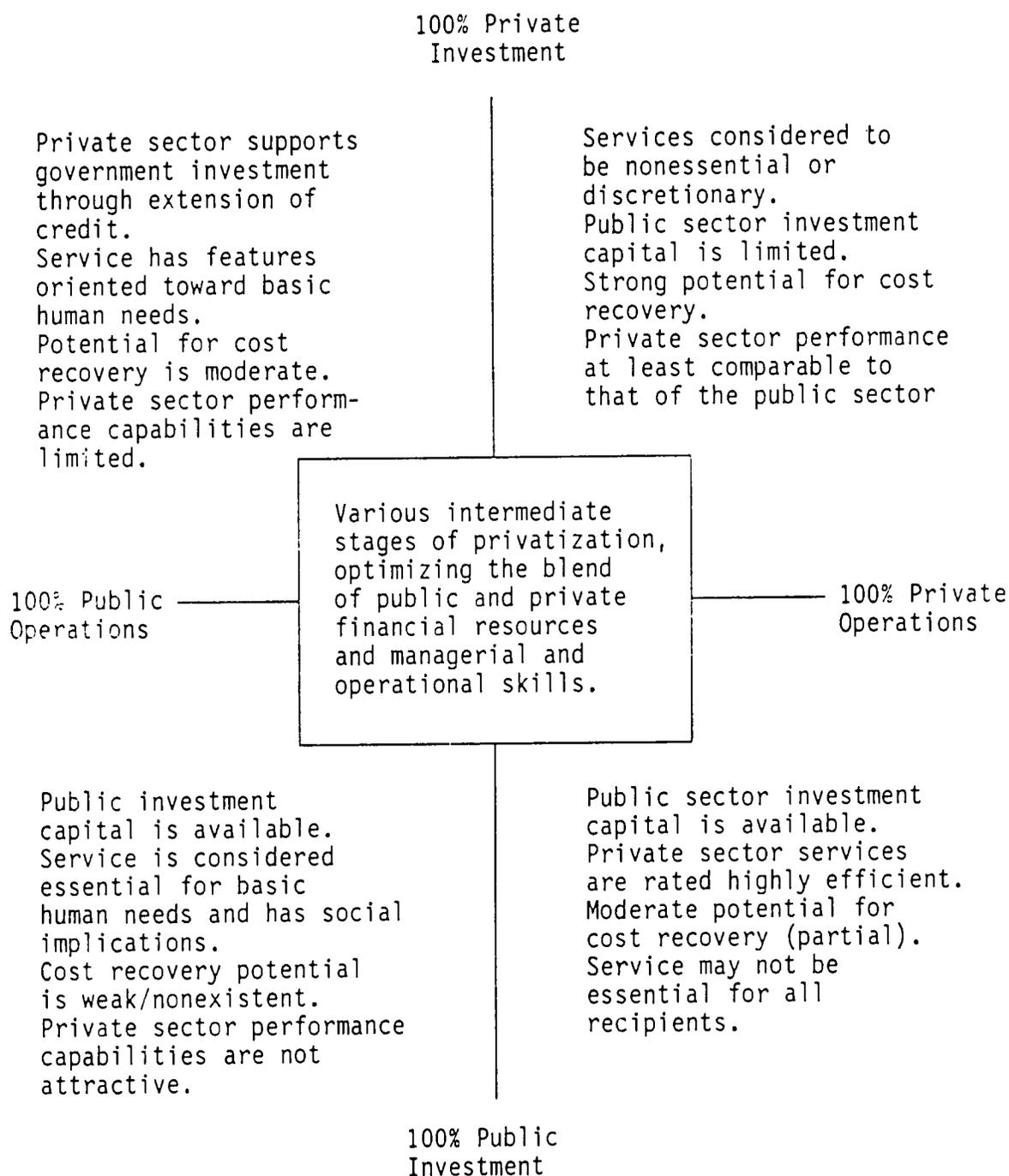
- **Public goods** are those that are consumed jointly and simultaneously by many people and from which it is difficult to exclude people who do not pay. Public goods include those services and facilities whose benefits are least likely to accrue to any one individual and are most likely to be useful only if provided for the community as a whole.
- **Open access goods** are those from which people cannot easily be excluded and that are not jointly used—that is, their use by one group of people does not intrinsically preclude their use or consumption by others. These services do benefit individual consumers and their use can be priced, but they also have substantial positive indirect benefits for the whole community.
- **Joint use, toll or utility goods** are those that can be provided on the basis of people's ability to pay. Exclusion is usually feasible and the use is joint, that is, the use of the goods by one group of consumers usually limits or precludes the use of the same goods by others. The indirect benefits are small compared to the direct benefits and the services involve substantial economies of scale and thus are frequently monopolistic.
- **Private goods** are those that can be consumed or used by individuals. Those people who cannot or will not pay for them can easily be excluded. Allocation decisions are made primarily by market mechanisms, payment for the goods is closely related to demand and consumption, and individuals have a good deal of choice about the kind and quality of goods they consume. It is relatively easy to measure the quality and quantity of these goods and to allocate per unit and marginal production costs.

The classification of goods into these categories can help policy analysts to determine which services can be provided by market mechanisms through user charges or individual payment, and which must be provided by public or collective organizations using general revenues.

A typology developed by Rourke and his associates offers useful guidelines for interpreting the financial and organizational implications these characteristics of local goods and services. Exhibit 3 indicates the appropriate combination of public and private investment and management of services with different characteristics.

EXHIBIT 3

FACTORS AFFECTING ORGANIZATION AND FINANCING OF URBAN SERVICES



Source: P. Roark, J. Baker, S. Buzzard and H. Cauley, Privatization Study of the Village Water Supply and Sanitation Project, Lesotho, Washington: Water and Sanitation for Health Project, 1987.

Characteristics of Service Users. Although classifying local goods and services can help in assessing the feasibility of decentralization, policy analysts must also understand the characteristics of service users. [See Section 3.2.2 of the resource report.]

Decentralizing urban services and infrastructure effectively depends on identifying more accurately the social and economic characteristics of service users. Policies often have drastically different impacts on groups with different economic, social, ethnic, religious, cultural or political characteristics. In a decentralized system, government agencies and nongovernmental organizations will have to tailor their programs to the characteristics of consumers. Standard "packages" of services for urban residents often end up being inappropriate for some and ineffective in meeting the needs of others. More precise and accurate identification of the needs of urban neighborhoods, households and enterprises can contribute to more effective, efficient and relevant service delivery policies.

Exhibit 4 describes some of the criteria for analyzing service users.

Institutional Structures of Service Provision and Service Use. A third aspect of feasibility analysis is the assessment of the institutional characteristics of service provision and the structure of service use. Analysis should focus on the rules of behavior of different groups of users, patterns of service use, and the demand for institutional change. [See Section 3.2.3 of the resource report.]

Analyses of institutional patterns of service production and use are important because the most appropriate mode of service delivery depends on a variety of factors such as the size of the city, the number and characteristics of people to be served, the cohesiveness of neighborhoods, the management capacity of local organizations and the strength of private sector service industries. In cities and countries where there are political constraints on public participation, for example, organized self-help may not be a feasible approach. This may also be true where local leadership is weak, communities are not socially cohesive, and support from government agencies for community efforts is not forthcoming.

Analysis of Service Provision Institutions. Assessments of institutions providing urban services can give policy analysts insights into comparative strengths and weaknesses of the public and private sectors in financing, delivering and maintaining urban services and infrastructure efficiently and effectively.

One way of assessing public institutions' capacity to provide urban services and infrastructure at the municipal level is the "Municipal Management Assessment." This assessment was developed for the U.S. Agency for International Development by the Research Triangle Institute. The Municipal Management Assessment is a process for analyzing the capabilities of municipal governments to provide urban services from two perspectives: the national level and the municipal level. (See Exhibit 5.)

EXHIBIT 4

ASSESSING THE SOCIO-ECONOMIC CHARACTERISTICS OF URBAN SERVICE USERS

The World Bank suggests at least six major sets of characteristics of urban service users that should be considered in an analysis of financial and organizational arrangements for decentralization:

1. Employment and income characteristics--including total family income, sources of income, income stability, type of employment, labor force participation rate, number of people working, and proportion of self-employment.
2. Demographic characteristics of the family--including family size, age composition, education of household head, proportion of children attending school, civil status of household head and geographical mobility.
3. Housing costs, quality and value--including house value, construction quality, house size and access to services.
4. Health--including infant mortality rates, time lost from work or school due to illness, access to medical services, amount spent on medical services.
5. Consumption patterns--including amounts saved and amounts spent on housing, food, clothing, transportation, and health.
6. Community participation--including participation in political, social and religious organizations, participation in mutual help activities, and satisfaction with the community and with the economic and political situation.

These data may be available in census studies or may have to be collected through sample surveys, intensive studies of sample households, or observational techniques.

Source: Michael Bamberger and Eleanor Hewitt, Monitoring and Evaluating Urban Development Programs, World Bank Technical Paper No. 53. Washington, D.C.: World Bank, 1986.

EXHIBIT 5

COMPONENTS OF MUNICIPAL MANAGEMENT ASSESSMENT

NATIONAL LEVEL ANALYSIS

- o Basic Documents to Obtain
 - Municipal Organic Statute
 - Annual Legislation
 - Other Statistics; Budgets
- o Agencies, Ministries Organizations to Visit
 - Principle Local Government Oversight Agencies
 - Ministry of Finance
 - Ministry of Community or Urban Development
 - National Planning Agency
 - Regional Development/ Planning Agencies
 - Central Bank
 - Technical Assistance Agencies

MUNICIPAL LEVEL ANALYSIS:

ASSESSMENT OF GENERAL ADMINISTRATION FUNCTIONS

- o Planning
- o Financial Management
 - Revenues Estimation
 - Revenue Collections
 - Operations/Current Budgeting
 - Capital Facilities Planning and Budgeting
 - Cash Management
 - Debt Management
 - Purchasing
 - Accounting
- o Personnel

ASSESSMENT OF SERVICE DELIVERY FUNCTIONS:

- o Overall Organization Structure
- o Personnel
 - Distribution
 - Work Assignment Processes
 - Use of Contract or Non-Municipal Personnel
- o Materials Acquisition and Management
- o Work Process Management
- o Client-Based Delivery
- o Departmental Budgeting Process

Source: S. Johnson and R. Johnson, Guidelines for Conducting a Municipal Management Assessment, Research Triangle Park, N.C.: Research Triangle Institute, 1986.

The national level assessment gathers information on

- the functions municipalities perform in the public sector;
- policy changes that are being considered that may expand or shrink municipal functions;
- enabling legislation and constitutional provisions that affect municipalities' ability to carry out those roles;
- the role of national government ministries and institutions in regulating and providing technical and financial assistance to municipalities;
- the capacity of national and regional institutions to carry out their functions vis-a-vis municipalities;
- specific constraints or practices at the national level that influence local activity, for example, delays in returning locally generated revenues to the municipality;
- financial performance information to assess the relative importance of central versus local revenues, financial trends and differences by city.

The municipal level assessment gathers information on

- the political and structural features of the municipality;
- the relationships among the municipality and national or regional ministries and other institutions operating at the municipal level;
- the municipality's legal and political capacity to carry out its functions;
- the organization of municipal services, including the role of parastatal and private sector organizations in public service provision;
- the organization and functioning of important support activities including personnel management, operating and capital budget planning and resource allocation processes, and accounting and other information support functions;
- the level of technical knowledge, based on the background, experience, and formal training of principal municipal officials.

Policy analysts can use the Municipal Management Assessment to evaluate the entire system of local service and infrastructure provision. They can also assess the relative importance and capacity of central governments, local governments and private organizations to finance, manage, deliver and maintain urban services.

b. Institutional Analysis of Service Use. Policy analysts must understand not only the institutional patterns of service provision but also the patterns of service use. This includes rules of behavior of various groups of people who use urban services and infrastructure, patterns of service use and the demand for institutional change.

Institutional and economic analyses, and especially the analysis of property rights, can improve policy-makers' understanding of the common rules by which people use public and open access goods. Through formal and informal behavior, people have devised enduring patterns of interaction for using public, open access and joint goods. Analysts must understand these rules before they can prescribe alternative financial and organizational arrangements. Many cooperative or privately devised arrangements for using public services and resources are more efficient and effective than those imposed by government regulation.

Analysts must also assess the willingness of those who will be affected by changes in the way urban services are financed and organized to accept institutional changes in the face of individual costs and benefits. Policy analysts must do risk analyses that gauge the real demand for institutional changes that will result from decentralization.

Step II-3: Analysis of the Financial Options for Decentralization of Urban Services and Infrastructure

After analysts assess the political feasibility of decentralization and the characteristics of services, users and institutional rules of behavior, they must evaluate alternative means of organizing and financing service provision more effectively and efficiently.

Chapter Four of the resource report provides guidelines for assessing alternative financial arrangements for decentralization.

Financial responsibility is a key to the success of decentralization. If decentralization is to have real impacts on enabling local governments and private organizations to provide urban services and infrastructure more effectively, local organizations must have stronger authority to raise, and greater capacity to actually generate, larger amounts of revenues. These conditions are not the same. In many countries local governments have the legal authority to impose more taxes, but their tax base is so weak and their dependence on central subsidies is so strong that they make no attempt to exercise that authority.

Local organizations have many potential sources for raising the revenues needed to finance urban services and infrastructure without relying only on central government funds. Analysis of these financing arrangements should focus on the questions of who pays, how the amount of payment is determined, and what form the payment should take.

Among the financial arrangements for decentralizing urban services and infrastructure that policy analysts should consider are:

- Self-financing and cost recovery
- Co-financing and co-production
- Intergovernmental transfers from central to local governments

- Expansion of local general revenues
- Expansion of municipal borrowing
- Employment generating service provision that increases income of service purchasers
- Cost reduction measures that make more financial resources available for service provision

Each of these options has strengths and weaknesses and is appropriate for a limited range of services and infrastructure. Policy analysts should match different types of urban development activities with the appropriate financing options.

a. **Self-financing and cost recovery** can be achieved through user charges, betterment levies and land readjustment programs.

- **User charges** can be levied for those services or infrastructure for which there are direct relationships among the costs of providing the services, the amount charged for the services, and the amount of services received. [See Section 4.1.1 of the resource report.]

- **Betterment levies** are taxes for those services for which there is some direct relationship between providing the service and improvements in the value of property owned by the beneficiaries. The costs of providing services are recovered by taxing surplus value created by public improvements on or near private property. [See Section 4.1.2 of the resource report.]

-- **Land readjustment programs**--whereby land owners pool their property for service improvements and contribute a sufficient amount of land to compensate government for the costs--may also be useful in recovering public expenditures for servicing urban land that is likely to be developed in the near future. [See Section 4.1.3 of the resource report.]

User charges have a number of advantages and some disadvantages. Analysts should be aware that experience with cost recovery in Third World cities has been mixed. It is especially difficult to recover the costs of services in neighborhoods with large numbers of poor households. Exhibit 6 describes both the strengths and weaknesses of user charges. [See Section 4.1.4 of the resource report.]

b. **Co-financing and co-provision** is an arrangement through which the users participate in providing services or maintaining a facility, and thereby reduce the overall costs to a level lower than if they were provided entirely by government. When beneficiaries contribute labor or materials, in effect, they co-finance the provision of services. Some communities use fiestas, fairs, ad hoc contributions and donations to help pay for services or to participate in self-help projects. Some communities create small-scale productive activities to raise funds for services and for infrastructure construction and maintenance. [See Section 4.2 of the resource report.]

EXHIBIT 6
ADVANTAGES AND DISADVANTAGES OF USER CHARGES

ADVANTAGES

- Tie the amount paid directly to the receipt of the service.
- Easy to assess and to collect, especially in situations where consumers must pay the fee prior to or at the same time as receiving the service.
- Services can be terminated if charges are not paid, thereby overcoming the "free rider" problem.
- Gives consumers greater choice and ability to affect quality by varying the amount they use.
- Charges can be adjusted as costs change over time.
- Encourage fiscal discipline among both service providers and service users.
- Encourage better care of infrastructure and equipment.

DISADVANTAGES

- Difficult to levy for services considered essential for public welfare or that are basically indivisible.
- Some services or facilities such as roads and streets raise problematic issues because they provide both private and public goods.
- Difficult to exclude non-payers from using some services and facilities, and difficult to measure "consumption" of the service.
- Too many user charges runs political risks for local officials and may be socially unacceptable.
- Difficult to convince citizens to pay for services seen as governments responsibility to provide.
- Can exclude low-income households from access to essential services, and especially those that are most important for improving the productivity of labor and human capital in cities.

Co-provision allows services to be extended to areas where they would normally not be provided, reduces the amount of resources that the municipality must devote to extending or maintaining services, and increases the service level that can be obtained with limited government resources. Thus, co-provision can increase both the equity and the efficiency of service delivery.

c. **Intergovernmental transfers** provide loans or grants to local governments from national general revenue sources, or earmark funds from specific revenue sources such as tax charges, import duties, fees and fines, amusement or entertainment taxes or lotteries for urban infrastructure and services.

Transfers can take many forms and there are often great differences between the formal allocation formulas and the actual transfers. In general, transfers can be made through:

- **A shared tax**, which is collected by the central government and shared with local jurisdictions;
- **Formula grants**, by which the central government distributes resources by specified criteria such as population size or number of service users residing in a jurisdiction;
- **Ad-hoc grants** for particular types of services or facilities that the central government wishes to promote;
- **Reimbursement grants** for certain specific types of expenditures made by local governments;
- **Tax credits** to individuals and businesses for investing in specified activities or producing particular goods and services;
- **Vouchers** to individuals or households that can be used to purchase goods and services from local governments or private organizations.

Policy analysts should examine carefully the potential advantages of grants or subsidies and balance these against the drawbacks described in Exhibit 7 and in Chapter Four of the resource report.

d. **Expansion of local general revenues** is another means of financing urban services and facilities. Property taxes and other indirect charges can pay for those services that are of value to the community as a whole, but for which the costs are not linked directly to specific beneficiaries or users. [See Section 4.4 of the resource report.]

Municipalities in most developing countries have considerable scope for improving the effectiveness of local tax collections and improving the efficiency of expenditures. Municipalities often have the authority to collect a wide variety of taxes and fees. One of the strongest potential sources of financing urban development activities, especially in cities experiencing economic growth, is the real property tax.

EXHIBIT 7

ADVANTAGES AND DISADVANTAGES OF INTERGOVERNMENTAL TRANSFERS

ADVANTAGES

- Although the granting government's costs increase by the amount of the grant or subsidy, they are usually less than the full cost of providing services and facilities directly.
- Grants can be used to induce other levels of government or non-governmental organizations to share some costs or provide services that would have to be provided by the level of government providing the grant.
- Grants allow local governments or private organizations to provide services at lower costs to consumers, thereby extending access to poor households.
- Encourage more service-providers to offer goods or services, and expand choice for consumers and competition in service provision.
- Intergovernmental transfers allow central governments to collect revenues they can raise more efficiently because of larger jurisdiction and to share proceeds with localities.
- Grants can assure survival of local units of government that might not be able to finance their operations from local revenues.

DISADVANTAGES

- Allow the granting organization to exert strong controls and restrictions over recipient organizations.
- Local governments may become dependent on grants and subservient to the granting organization.
- Local governments have little incentive to expand their own revenue bases.
- May prolong inefficient operations by recipient organizations or encourage monopoly conditions if subsidies drive nonrecipients out of market.
- Can decrease fiscal autonomy of local jurisdictions, and lead to a rapid decline in the level of local services when grants are terminated or reduced.

But the property tax remains a limited source of revenues for municipalities in many developing countries because of the difficult problems of tax collection. These problems arise from administrative weaknesses in tax assessment and from central government controls. The tax base of municipalities in the poorest developing countries is weak because of widespread poverty. Moreover, the assessment system in many developing countries allows exemptions for many types of properties. The tax base is further eroded by ineffective valuation techniques, assessment deficiencies, and inaccurate determination of collectibles. Property transfer records are poor and legal action is rarely taken against delinquent taxpayers. Widespread political interference in tax collection and enforcement creates a general perception among taxpayers that the system is unfair, inequitable and unenforceable, leading to low levels of payment.

e. Expansion of municipal borrowing and the mobilization of government resources (through loan guarantees or subsidized credit) for borrowing by individuals to obtain services from private providers, are other means of financing urban development activities. [See Section 4.5 of the resource report.]

In an increasing number of developing countries the government is recognizing the need to expand the borrowing capacity of local governments so that they can satisfy the growing demand for urban services and infrastructure. Municipal development financial institutions can consolidate resources from fragmented capital markets in developing countries and thereby increase the supply of capital needed for urban services.

Municipal or urban development funds can perform important roles in mobilizing capital for local government investments, but they also have potential disadvantages that policy analysts must assess. Exhibit 8 outlines the potential strengths and weaknesses of these institutions.

f. Employment generating service provision arrangements--that is, the use of service provision and infrastructure construction programs that employ the labor of community residents and beneficiaries to increase their incomes sufficiently to allow them to purchase services or pay the costs--can expand effective demand for public goods. [See Section 4.6 of the resource report.]

Among the approaches that can be used to increase the ability of poor urban households to pay for services are the following:

- Organizing municipal service delivery to poor neighborhoods in a way that generates employment among the beneficiaries.
- Developing programs that increase the capacity of the informal sector to provide appropriate services, build low cost housing, or provide construction materials for shelter and infrastructure.

EXHIBIT 8

ADVANTAGES AND DISADVANTAGES OF MUNICIPAL DEVELOPMENT FINANCIAL INSTITUTIONS

ADVANTAGES

- Reduce the overall cost of capital through economies of scale and by offering a diverse portfolio of financial issues of different types, sizes and maturities.
- Offer greater flexibility and higher creditworthiness than individual local governments.
- Offer both credit and technical assistance to improve the management of investment projects and of municipal administration.
- Place the intergovernmental transfer relationship with local governments on a more businesslike basis and can create a stronger sense of responsibility in municipal officials to repay their loans.
- Provide a means of involving the private sector in financing public services and infrastructure.

DISADVANTAGES

- Could displace or inhibit expansion of private financial markets in providing capital to the public sector.
- May simply serve as instrument for intergovernmental transfers rather than mobilizer of new capital resources.
- Operations may be inefficient, undermining their role in expanding municipal borrowing capacity.

- Developing service extension projects that include components for the participation of local small-scale industries, and offering assistance that will expand small-scale enterprises in and near poor neighborhoods.
- Promoting, or at least eliminating regulations and restrictions against, informal sector activities that provide income for poor households.

Policy analysts should identify how services can be provided in ways that will generate employment or raise the incomes of beneficiaries so that they are better able to pay for services and infrastructure.

g. **Cost reductions** achieved by modifying or eliminating public regulations that artificially increase the price of public goods and services or that obstruct private sector provision of services and facilities can free additional financial resources for urban development. [See Section 4.7 of the resource report.]

Analysts should consider the feasibility of the following measures to reduce the costs of providing urban services and infrastructure:

- Adjusting regulations, controls and standards to assure access for the poorest urban households to basic services and facilities.
- Controlling land speculation and land costs through stronger controls or regulations.
- Reserving land that will be needed in the future for urban services and facilities before inflation or speculation increases its cost.
- Guiding population migration to secondary cities and towns where per capita costs of providing services may be lower than in the largest cities.

Policy analysts should assess how these and other cost reduction measures can make additional funds available to finance the expansion of urban services and infrastructure.

In brief, any attempt to assess the feasibility of decentralizing urban development activities must compare alternative financial arrangements. In most developing countries, decentralization policies must include financial reforms and measures to improve the intergovernmental transfer system, expand the capacity of local governments to recover costs and to raise general revenues, and provide municipalities with greater flexibility to borrow.

Step II-4: Analysis of Organizational Alternatives

Three major forms of administrative decentralization were described earlier: deconcentration of central government ministries and agencies; delegation to public enterprises, corporations or authorities; and devolution to local governments. Privatization or deregulation is another

form of decentralization that must be assessed. [See Chapter 5 of the resource report.] Within these four broad categories, a number of organizational arrangements are available to decentralize urban development programs. These include:

- Subnational administrative units
- Public enterprises
- Market surrogate arrangements
- Municipal and local governments
- Assisted self-help programs
- Cooperative or membership organizations
- Public-private partnerships
- Performance contracting
- Private businesses and informal sector organizations

Each of these organizational arrangements has strengths and weaknesses that are described below and in Chapter Five of the resource report.

a. **Subnational Administrative Units.** Although central governments in most developing countries will continue to provide some urban services and infrastructure, there are organizational arrangements that can help to make service delivery more efficient and more responsive to users' needs. [See Section 5.1 of the resource report.]

In highly centralized countries, deconcentration of central government ministries through the creation of field offices can be a crucial first step that allows agencies to learn to be more responsive and that can lead to greater decentralization later.

Although Exhibit 9 indicates that there are some serious disadvantages of relying on subnational units of the central government to finance and manage urban services, in many countries deconcentrating the authority and resources of central ministries can be important when other forms of decentralization are inappropriate or infeasible.

b. **Public Enterprises.** Delegation of responsibilities by central government ministries to public corporations or state-owned enterprises is another organizational arrangement for decentralizing urban development activities. [See Section 5.2 of the resource report.]

Public enterprises can usually be distinguished from regular government agencies by their separate legal identity and corporate structure. They are expected to earn most or all of their revenues from the sale of goods and services. Thus, they are called "off-budget" organizations in some countries. Because they price their goods and services at levels that recover investment, operating and maintenance costs, they operate much like private corporations. They usually have a great deal of autonomy, although governments in some countries try to supervise them closely.

In urban areas, public corporations and state-owned enterprises frequently provide transport, communications, electricity, gas and water services that require large "lumpy" capital investments for which financial resources are

EXHIBIT 9

ADVANTAGES AND DISADVANTAGES OF FIELD ADMINISTRATION

ADVANTAGES

- Allows central ministries to focus on the conditions and needs of different regions or areas of the country and obtain information needed to develop appropriate policies and programs.
- Allows ministry staff to interact with local officials and citizens and coordinate activities at local level.
- Brings specialized technical expertise and management capacity to the provincial or local level.
- Can extend coverage of services and facilities and provide access to larger number of citizens more effectively.

DISADVANTAGES

- Field positions often considered by both ministry officials and field officers to be less desirable posts than those in headquarters.
- Field officers often more concerned with being transferred or promoted to headquarters than with fulfilling responsibilities at local level.
- Field officers often lack adequate training, are poorly supervised and lack sufficient resources to perform duties efficiently.
- Field staff may fail to develop good relationships with clientele.
- Central ministry officials may be reluctant to transfer authority or resources to field officers.
- Jealousies and conflicts can arise between field officers of national ministries and local officials and political leaders.
- Field administrators can weaken well-established capacities for collective action at the local level or prevent those capacities from developing.
- Field officers may respond to local pressures instead of carrying out central directives.

usually difficult to obtain through regular government budgets. Private enterprises may not be willing to risk investments in services from which they may not be able to make an acceptable level of profit and thus leave investment to the public sector.

Analysts should consider five criteria that are generally used to assess the desirability of creating special authorities or special districts to provide urban services and facilities:

- Effective performance of the service involved;
- Economy in providing the service;
- Political responsiveness;
- Impact on fragmentation of governmental and political responsibility;
- Impact on existing governmental structure.

Any assessment of delegation to public corporations, authorities and enterprises must take account of their comparative strengths and weaknesses. Exhibit 10 outlines some of the actions that can be taken to improve their performance in providing urban services and infrastructure.

c. **Market Surrogate Arrangements.** Another important approach to promoting decentralization is the use of market surrogates. A market surrogate approach seeks to improve performance in public sector institutions through organizational changes that introduce some efficiency elements of markets, such as greater competition, choice and accountability. Market surrogate arrangements can have two major components. One alters the competitive environment in which an organization must operate so that pressures are greater for it to improve service delivery. The other rearranges conditions within the organization so that internal incentives reinforce external competitive pressures. [See Section 5.3 of the resource report.]

Requiring public service institutions to compete with each other and with private sector organizations encourages service providers to offer different "market baskets" of goods and services to "consumer groups" with different needs, preferences, levels of disposable incomes and life styles, and to keep their costs low.

d. **Municipal or Local Governments.** Municipal governments play important roles in urban development and can be effective units to which to decentralize responsibility for providing local services, facilities and infrastructure. [See Exhibit 11 and Section 5.4 of the resource report.] In most developing countries, however, municipal governments are among the weakest administrative units and few fulfill their potential.

Although local governments can play an important role in providing public or merit goods, the success of decentralization depends on strengthening their managerial and financial capacity. National governments must be

EXHIBIT 10

REFORMING PUBLIC ENTERPRISES IN DEVELOPING COUNTRIES

The World Bank suggests six major reforms that can overcome weaknesses of public corporations, public authorities, and state-owned enterprises (SOEs) in developing countries:

- Setting clear-cut and attainable objectives.
- Once constraints have been identified and costs estimated, government can instruct SOEs to maximize their profits, taking into account other objectives that reduce profits by reimbursing the companies or lowering their profit targets.
- Negotiated agreements, such as contracts or corporate plans, can help put SOE-government relations on more constructive plane.
- Systems of monitoring and evaluating performance are needed to transform good intentions into results.
- Managerial ability is key to success of SOE reform. Managerial incentives linked to performance are important in motivating top managers.
- The managerial and fiscal burden of SOEs can be reduced by liquidating nonviable enterprises, by selective sales and by using alternative means to achieve the government's goals.

Source: M. Shirley, Managing State Owned Enterprises, WBSWP No. 577, Washington: World Bank, 1983.

EXHIBIT 11

POTENTIAL ADVANTAGES OF MUNICIPAL AND LOCAL GOVERNMENTS

Municipal governments can:

- Allow citizens to participate in public activities affecting their economic and social well-being.
- Elicit stronger support for urban development activities because local residents can see benefits more easily.
- Enable local officials to plan and set goals that reflect local conditions and that meet local needs more effectively.
- More effectively enforce laws, rules and regulations affecting public welfare and safety and maintain law and order on a daily basis.
- More easily than central governments maintain urban services and infrastructure because they can monitor deterioration and breakdown.
- More efficiently plan and manage small-scale development projects because they can give these activities closer and more frequent supervision.
- Help maintain political stability that is necessary for urban economic and social development.
- Play an important "enabling" role that facilitates participation by other public and nongovernmental organizations in urban development activities and that promotes more efficient urban development decisions.

willing to grant them greater revenue raising authority and administrative autonomy to provide public services effectively. Exhibit 12 lists some of the ways in which the administrative capacity of municipal governments can be improved.

e. **Government-Assisted Self Help.** Self-help is an organizational arrangement for decentralizing the provision of urban services and infrastructure that is used in most developing countries. [See Section 5.5 of the resource report.] In self-help programs, residents of communities to which services are provided contribute labor, local materials, matching funds, and leadership for constructing and maintaining community facilities and infrastructure. Central or local government agencies provide financial and technical assistance and help supervise the work. Self-help programs are used primarily to construct local infrastructure such as streets and roads, schools, clinics, and water and sanitation systems.

Experience suggests a number of conditions that promote participation in self-help programs. These include:

- resource availability and control by the community;
- representative, pluralistic and responsive leadership within the community;
- shared common goals and perceptions of basic needs by community residents;
- positive experience with collective action and participation;
- encouragement or recognition by government of the need for participation in service improvement programs and projects;
- sufficient flexibility in program design to restructure community groups into larger or smaller size to respond to services of different scope or scale;
- credibility and trust between service providers and the community;
- some degree of homogeneity and harmony among the residents of a community.

Self-help programs are more likely to succeed when the beneficiaries see visible results. Public officials must be sensitive to the potential benefits of working through traditional leadership, organizations and systems within the community. If self-help programs are to succeed residents must be given adequate training to enable them to participate effectively.

In order for self-help programs to work effectively, they must be carefully planned and implemented. A crucial element in the success of self-help activities is support from the municipal government and other public agencies. Government officials must be willing to allow greater participation and control by voluntary and community groups over service improvement projects. Exhibit 13 identifies principles of successful self-help in urban areas.

EXHIBIT 12
PROGRAMS NEEDED TO STRENGTHEN MUNICIPAL MANAGEMENT CAPACITY

- Upgrade the planning capability of local government to anticipate and deal with physical, economic and social changes as urban development occurs and to formulate and implement policies and programs for coping with those changes;
- Improve personnel management capabilities by developing job descriptions, effective operating procedures, salary and wage guidelines, transfer and promotion policies, and performance evaluations;
- Develop efficient procedures for identifying revenue collection potential and improving tax collection performance;
- Establish and improve methods of record-keeping and billing to implement revenue enhancement programs;
- Develop and implement cost recovery programs for capital investment projects;
- Strengthen capital facilities planning procedures;
- Improve methods for capital budgeting and accounting that identify and track the full costs of operation and maintenance in order to provide full cost recovery;
- Establish methods for measuring the performance of service provision in order to maximize benefits and minimize unnecessary resource expenditures.

EXHIBIT 13

PRINCIPLES FOR ORGANIZING SELF-HELP URBAN SERVICES AND INFRASTRUCTURE PROGRAMS

The United Nations Children's Emergency Fund (UNICEF) has extensive experience helping governments and nongovernment organizations in developing countries to organize self-help assistance programs in urban areas. Drawing on its experience with the Urban Basic Services Strategy, UNICEF concludes that the most important managerial principles for implementing self-help programs are the following:

- o Semi-autonomous activities initiated within the community or through voluntary organizations should be integrated with community development agencies and with mainstream municipal government service programs soon after they are established in order to create the linkages needed to sustain service improvements.
- o Institutional support from central and local government agencies must be provided in a way that encourages the maximum use of local human and material resources for service improvements.
- o Contacts by the municipal government should be made with community and voluntary groups only when it can make firm commitments of resources to support self-help service improvements in the community.
- o Proposals to community groups for self-help projects should be based on clearly understood agreements about roles, resources, and intended results.
- o Community participation should be formalized quickly and should provide for representation of members of all relevant community interests.
- o Activities for service improvement should be phased or paced in such a way that they are completed quickly enough to show visible results, but slowly enough that they allow for adequate planning, organizing, and mobilization of resources to sustain the projects over a sufficient period of time to have positive impacts.
- o The activities of publicly assisted community projects should be monitored and evaluated by the funding sources regularly so that problems can be discovered and obstacles can be overcome quickly.
- o Training of community leaders should be one of the first activities undertaken in an area in which self-help activities are promoted so that they can initiate and organize service improvements and help mobilize the resources needed to carry them out.
- o In the initial stages of new self-help or service improvement projects, emphasis should be given to only a few activities for which adequate resources can be mobilized and the commitment and participation of the community can be obtained so that the projects can be implemented successfully. These can serve as demonstration projects to create stronger motivation to expand other services later.
- o Monetary and other incentives must be provided to municipal and central government employees to work with community groups in service improvement schemes during the evenings and after regular working hours when most community participation occurs.
- o Provision must be made for adequate and continued maintenance of services and facilities that are created or extended by community and voluntary groups if they are to have a real impact on improving conditions in poor neighborhoods.

Source: United Nations Children's Emergency Fund, UNICEF Urban Basic Services: Reaching Children and Women of the Urban Poor, E/ICEF/L1440/Add.1, New York: UNICEF, 1982.

f. **Cooperatives and Membership Organizations.** In many developing countries, cooperative organizations provide another arrangement for decentralization. Cooperatives can increase the participation of local residents in community development projects, help mobilize local resources, channel information about local conditions and needs to government officials, and provide a wide range of productive and social services to their members. [See Section 5.6 of the resource report.]

In some developing countries cooperatives provide low-cost housing and supplement public shelter programs. In communities where residents are too poor to afford the cost of even basic housing, and where they cannot easily obtain credit, mutual benefit organizations can help members pool their resources to buy materials. Usually members of the cooperative assist each other in constructing core units until all members have core shelter. They assist each other in expanding or upgrading their houses as they acquire the resources to do so.

Cooperatives usually need financial and technical assistance from government or private sources. Their members must be willing to work together and must have a minimum amount of capital and income in order to repay their loans. Group capital and loans must be carefully managed so that all members can share the benefits.

g. **Public-Private Partnerships.** Many governments in developing countries are exploring the use of public-private partnerships to provide services or undertake urban development projects. [See Section 5.7 of the resource report.] Public-private partnerships can take a number of forms, including:

- **joint ventures**, in which public and private organizations formally or informally work together to implement urban development activities;
- **joint investment**, in which public and private organizations finance facilities and infrastructure or urban development projects;
- **turnkey projects**, in which governments agree to buy or lease completed facilities constructed by the private sector;
- **government incentives or subsidies** for private investment in providing urban services or infrastructure.

Public-private partnerships can be attractive means of decentralizing urban development activities because they provide access to private investment capital, institutional savings, and private sector management and technical expertise. In some cases, these partnerships substitute private funding for public financing, thereby relieving some of the government's financial burden in providing urban services and facilities.

Performance Contracting. Contracting for services allows central or municipal government agencies to arrange with private or other public institutions to provide services, facilities or infrastructure. Contracts must meet the quantity and quality specifications of the government. Private organizations can often provide efficiently basic health care, garbage collection, fire protection, public safety services, and recreation and training. Performance contracts can be used to supply the resources, personnel and equipment of government agencies. When governments contract with several different organizations they can provide different levels of services to groups with varying needs and abilities to pay. [See Section 5.8 of the resource report.]

Performance contracting is most appropriate when greater efficiency can be achieved. Economies of scale, greater productivity can be obtained from hired or professionals than from the civil service, and contractors can make use of part-time labor or less labor-intensive methods of operation. Exhibit 14 summarizes the potential advantages and disadvantages of performance contracting.

Provision of Services by Private Enterprises. The private sector is providing urban services and infrastructure in a growing number of cities in developing countries. Private businesses, private voluntary organizations and even informal sector enterprises can provide goods and services for which they can charge users and make a reasonable profit. Private firms can provide a wide range of urban services in developing countries, including formal and nonformal education and training, electricity, preventive and curative health services, telecommunications, transport services, and water and sewerage services. [See Section 5.9 of the resource report.]

Analysis of private sector participation in providing urban services in developing countries must include the informal sector as well as formal businesses and large enterprises. The informal sector consists of large numbers of very small individual or family run activities that can offer a large number of goods and services, particularly to low income users. Informal enterprises and small-scale entrepreneurs can also be used effectively for road and public facility maintenance.

The role of the private sector in providing public goods and services in developing countries remains a topic of debate. Analysts must weigh the costs and benefits of privatization not only to the level of government that is relinquishing responsibilities, but also to organizations that will assume those responsibilities and to service users. Exhibit 15 outlines some of the advantages and disadvantages of privatization.

EXHIBIT 14

POTENTIAL ADVANTAGES AND DISADVANTAGES OF CONTRACTING

ADVANTAGES

- Stronger incentive for private firms to keep costs down, to avoid bureaucratic problems that plague government agencies and experiment with new technology and procedures.
- Allows services to be provided or extended without large increases in number of public employees and without making large capital investments.
- Higher productivity from labor than civil service systems.
- More freedom from civil service restrictions on labor practices.
- Gives both small and large cities the ability to take advantage of economies of scale.
- Government can assure continuity of service by contracting with several service suppliers.
- Allows governments to take advantage of specialized skills in non-governmental organizations.
- Governments can determine the true costs of production and thereby eliminate waste.
- Permits governments to adjust the size of the program incrementally as demands or needs change.

DISADVANTAGES

- Can displace public employees and generate political opposition from civil service.
- Contracting can be more expensive than government provision of services because of potential for corruption, the tendency of contractors to maximize profits, cost of contract management or absence of sufficient competition.
- Can limit the flexibility of government to respond to emergencies.
- If too many contractors are used, it limits the opportunity to take advantage of economies of scale.
- Overly stringent regulation of contractors can lead to deficiencies in service provision and lax supervision can lead to insufficient accountability.

EXHIBIT 15

ADVANTAGES AND DISADVANTAGES OF PRIVATE SECTOR PROVISION OF URBAN SERVICES

ADVANTAGES

- Lower production costs and greater efficiency in service delivery
- Greater capacity to obtain and maintain capital equipment
- Ability to make decisions more efficiently and expeditiously
- Greater ability to cut costs, increase competitiveness, and search for new ways to increase productivity
- Less restrictions in work and hiring practices than public agencies and can use their staff more flexibly
- Greater incentives to meet unfulfilled demand among consumers

DISADVANTAGES

- Leads to higher unemployment among public employees
- Raises price of public services and infrastructure for many consumers
- Provides greater opportunities for corruption
- Lowers wage levels and employment security for those working in the service field
- Reduces or eliminates necessary but unprofitable services
- Eliminates those who cannot afford to pay market prices from receiving services
- Reduces public control over the types and quality of services available
- Can convert public monopolies into private monopolies

Step II-5: Assessing Socio-Economic and Organizational Factors Affecting the Implementation of Decentralization Policy

After policy analysts examine alternative financial and organizational arrangements for decentralizing urban services and infrastructure, they must give serious attention to those factors that affect policy implementation. They must make a more detailed examination of the political, organizational, behavioral and resource factors that influence the ability and willingness of central governments to decentralize responsibility. Analysts must also assess the ability of local government officials, leaders of private organizations, and community groups to accept responsibility for delivering and maintaining services. [See Section 6.1 of the resource report.]

The ability of governments to implement any of the financial and organizational arrangements for decentralizing urban development activities depends on the existence of, or the ability to create, appropriate conditions. Policy analysts must be able to assess the factors that are summarized in Exhibit 16. Chapter Six of the resource report discusses these factors in more detail.

Step II-6: Selecting and Implementation Strategy

Policy analysts must also evaluate appropriate policy interventions. Donors must assess the need for 1) policy dialogue with host country governments and between central government ministries and local governments and organizations, 2) technical assistance with program and project design, 3) financial and technical assistance with program implementation, and 4) evaluation of decentralization policies. [See Section 6.2 of the resource report.]

International assistance organizations can play an important role in helping governments in developing countries to determine which urban services and facilities can be provided more efficiently in a decentralized manner. They can help to select the appropriate financial and organizational arrangements for providing and maintaining services and infrastructure.

Thus, policy analysts must give serious attention to choosing the appropriate combination of financial and organizational arrangements for providing different types of services and infrastructure, and to determining when decentralization may not be appropriate. Not all services and facilities can or should be financed and managed in a decentralized fashion. Some services and facilities are provided better by a single organization that can take advantage of economies of scale and efficiencies of mass procurement and distribution. Others are more efficiently and effectively provided by a large number of local organizations.

EXHIBIT 16

FACTORS SUPPORTING THE SUCCESSFUL IMPLEMENTATION OF DECENTRALIZATION

Favorable Political and Administrative Conditions	Organizational Conditions	Behavioral and Psychological Conditions	Resource Conditions
--Strong political commitment and support from national leaders to the transfer of authority and responsibility to lower levels of government	--Appropriate allocation of functions between center and decentralized organizations	--Changes in attitude of central officials away from control-oriented, paternalistic, directive, behavior toward facilitative, supportive, interactive behavior	--Transfer of sufficient authority for decentralized organizations to carry out responsibilities
--Acceptance by political leaders of participation in planning and management by groups and organizations outside of their direct control	--Concise and definitive decentralization laws, regulations and directives that outline clearly the allocation of duties and responsibilities	--Effective means of overcoming resistance, or of eliciting support of, local elites and traditional leaders for decentralized service delivery and for citizen participation	--Transfer of sufficient financial resources or authority to raise revenues to decentralized organizations
--Strong administrative and technical capacity within central government to provide support and guidance to local and private organizations	--Flexible arrangements, based on performance criteria, for reallocating functions as resources and capabilities of decentralized organizations	--Creation of minimum level of trust and respect between government officials and citizens in planning and managing service delivery programs	--Training and other programs for developing human resource capabilities in decentralized organizations
--Effective channels of political participation or representation for citizens	--Clearly defined and uncomplicated planning and management procedures for participation of local officials and citizens	--Creation and maintenance of strong leadership in local administrative units and nongovernmental organizations to sustain delivery	--Adequate physical infrastructure at local level to deliver services effectively
	--Strong communications linkages between central government and decentralized units		

40

110

Financial and organizational arrangements for decentralization must be tailored to the conditions and needs of particular countries and cities.

Implementation Analysis. After policy analysts assess the appropriate financial and organizational alternatives for decentralization they should evaluate strategies for implementation. [See Section 6.2.1 of the resource report.]

In developing strategies for implementation, analysts should examine the questions of

- who should decentralize,
- what services, facilities, infrastructure or development activities should be decentralized,
- how to decentralize; and
- to which level functions should be decentralized.

Among the ways in which international assistance organizations and national governments can intervene to promote and sustain decentralization of urban development activities are:

- Developing appropriate and effective national policies and regulations for decentralization
- Strengthening local institutions' capacities to assume responsibility for urban development activities
- Providing training for both national and local officials in the finance and management of urban development activities
- Providing technical assistance to local governments, private enterprises and nongovernmental groups in planning, financing, and managing urban services and infrastructure
- Offering technical and financial support to private sector organizations

Success in decentralizing responsibility for urban service provision depends on the ability of governments in developing countries to reorient their urban service and infrastructure investment and management policies. Given the magnitude of the problem, the role of governments must change from that of being the primary service provider to that of being one of many service providers. But governments still retain a crucial role in assisting local governments, facilitating self-help activities, and supporting private enterprises engaged in urban development.

In a decentralized system, central government agencies will have to develop the capacity to plan services through and with neighborhood residents and local governments. Changes will be needed in the attitudes of political leaders and public administrators toward their roles in service provision, and new incentives and career rewards will be needed for professionals and technicians.

An appropriate set of criteria should be developed for allocating functions among levels of government and between the public and private sectors. In the public sector, the following criteria frequently are used to allocate functions among levels of government and among administrative jurisdictions. The governmental jurisdiction responsible for providing any service should:

- Be large enough to enable the benefits from that service to be consumed primarily within the jurisdiction. Neither the benefits from the service nor the social costs of failing to provide it should "spill over" into other jurisdictions.
- Be large enough to permit the realization of economies of scale.
- Have a geographic area of jurisdiction adequate for effective performance.
- Have the legal and administrative ability to perform services assigned to it.
- Be responsible for a sufficient number of functions so that it can resolve conflicting interests and balance governmental needs and resources.
- Have procedures that make it controllable by and accessible to its residents.
- Have procedures that provide opportunities for active citizen participation and still permit adequate performance.

Ultimately, the success of decentralization hinges on institutional capacity-building. In general, capacity may be defined as the ability to anticipate and influence change, make informed decisions, obtain and use resources efficiently, and manage resources effectively to achieve objectives. The institutional capacity of local public and private organizations to finance, manage and maintain urban services, and of central governments to facilitate and support decentralization, must be strengthened in nearly all developing countries.

Donors can provide assistance for decentralizing urban development activities most effectively by helping to build the financial and administrative capacity of local governments, private voluntary organizations, and small-scale enterprises. The most urgent needs are for training personnel in small-scale enterprises and local governments in managerial and technical skills. Many municipal governments need help with building an adequate statistical base for planning, managing and maintaining urban services and infrastructure.

Analysis of Policy Instruments. An important challenge for policy analysts will be to identify and test instruments for implementing decentralization policies that rely less on central control and more on incentives and exchange. [See Section 6.2.2 of the resource report.]

The relationships among at least four groups of "actors" are vital to the success of service provision policies.

- Political leaders and civil servants at the national government, field office, and local government levels.
- Leaders and staff of nongovernmental organizations such as international donors, private voluntary organizations, and nonprofit groups.
- Formal and informal community leaders who play a crucial role in channeling demands for shelter, services and infrastructure.
- Private entrepreneurs, informal sector service providers, and small-scale businessmen who can play an important role in extending public services and facilities.

Any policy or program to decentralize urban development activities will involve a complex set of relationships among these and other actors. Success depends in large part on finding ways of reconciling their interests and forging effective and mutually beneficial coalitions among them. New incentives for cooperation may be needed, and new ways must be found for combining the resources and skills that each group possesses in coping with the serious urban service deficiencies in developing countries. Creating and maintaining open systems of communication and exchange of information, clearly defining rules and procedures for implementation, and eliciting participation by those whose interests will be affected by decentralization, are all important aspects of implementation strategy.

The field of political economy has identified a wide variety of instruments for policy intervention that can be used in policy implementation. These include:

- Information dissemination and persuasion
- Advice and consultation
- Demonstration projects and programs
- Incentives and rewards
- Bargaining and negotiation
- Coalition building
- Coordination of existing activities
- Subsidies
- Authoritative prescription

Often, governments can promote decentralization simply by creating incentives -- through prices, subsidies or rewards -- that motivate local officials and private sector organizations to take more responsibility for financing and managing local services and infrastructure. Policy analysts must give much more attention to designing urban development activities that are suited to the capabilities of small and medium scale enterprises and to the administrative skills of local government officials.

Policy, Program and Project Design. Experience with decentralization in developing countries yields lessons that should be reflected in the policy dialogue between donors and host country governments and in project and program design. [See Section 6.2.3 of the resource report.] These lessons include the following:

- Small-scale decentralized programs designed for limited impact are likely to generate more positive and durable results than large-scale, sweeping organizational reforms.
- Abstract or complex decentralization schemes are unlikely to be implemented effectively in most developing countries; decentralized programs should be kept simple, flexible and appropriate to the capacities of local organizations.
- Decentralization requires a lengthy period of gestation before its benefits will be realized and, therefore, programs must be planned for the long term.
- Decentralization programs in which the first stages are closely supervised efforts to teach local organizations how to handle new responsibilities will be more successful than those that transfer large numbers of tasks or great responsibilities all at once.
- Decentralization programs can benefit from the involvement of international donors, but when donor agencies are relied on exclusively for financial and technical assistance, long-range impacts will be weak.
- Decentralization programs that include a component for training central administrators, local officials, and leaders of local organizations are more likely to succeed than those that do not.
- Decentralization programs that transfer adequate financial resources, and the authority to mobilize resources locally, will be more successful than those that only transfer responsibilities.

Finally, donors can play an important role in decentralization by sponsoring research and evaluations that provide a base of information on the experience with and lessons of decentralization in developing countries. They can monitor the progress of countries that decentralize responsibilities for urban services and facilities, and evaluate their effectiveness. Through these activities governments in developing countries can learn how to design and implement decentralization programs better in the future.

- United Nations (1987a). "Population Growth and Policies in Mega Cities: Dhaka," ST/ESA/SER.R/69, New York: UN.
- United Nations (1987b). Population Growth and Policies in Mega-Cities: Bangkok, ST/ESA/SER.R/72, New York: United Nations.
- United Nations (1987c). Population Growth and Policies in Mega-Cities: Madras, ST/ESA/SER.R/75, New York: United Nations.
- United Nations Centre for Human Settlements, 1985. "The Role of Small and Intermediate Settlements in National Development," Nairobi: UNCHS.
- United Nations Children's Fund (UNICEF) (1982). "UNICEF Urban Basic Services: Reaching Children and Women of the Urban Poor," E/ICEF/L1440/Add. 1, New York: UNICEF.
- United States Agency for International Development (1979). Environmental and Natural Resource Management in Developing Countries: A Report to Congress, Vol. I, Washington: USAID.
- United States Agency for International Development (1982). "AID Policy Paper: Food and Agricultural Development," Washington: USAID.
- United States Agency for International Development, (1983). Urbanization and Urban Growth as Development Indicators in AID-Assisted Countries, Washington: USAID.
- Uphoff, Norman (1986). Local Institutional Development: An Analytical Sourcebook with Cases, West Hartford, Conn: Kumarian Press.
- Uphoff, Norman and Milton J. Esman (1974). Local Organization for Rural Development in Asia, Ithaca: Cornell University Center for International Studies, 1974.
- Van Sant, Jerry (1987). "Local Resource Management Project: External Evaluation Final Report," Consultancy Report, Manila: US Agency for International Development.
- Von Einsiedel, Nathaniel and Michael L. Molina (1985). "Policy Issues in Urban Services to the Poor: The Case of Metro Manila," Nagoya, Japan: United Nations Center for Regional Development.
- Whang, In-Joung (1985). "Policy Issues in Managing Urban Services for the Poor: The Case of Squatter Improvement in Seoul, Korea," Nagoya, Japan: United Nations Center for Regional Development.
- World Bank (1975). Rural Development Sector Policy Paper, Washington: World Bank.