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CONSORTIUM ON DECENTRALIZATION
IN DEVELOPING COUNTRIES

DECENTRALIZING PUBLIC SERVICES IN DEVELOPING COUNTRIES:
A FRAMEWORK FOR POLICY ANALYSIS AND IMPLEMENTATION

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The demand for public services and physical infrastructure in developing countries is growing steadily as populations increase and as expectations of achieving better standards of living are raised by national development plans and international assistance programs. Local services and infrastructure not only contribute to social welfare but also enhance the productivity of labor, allow markets to work more effectively, and create opportunities for employment and entrepreneurship (World Bank, 1975, USAID, 1982). But in many developing countries local services and infrastructure are either provided by central governments ineffectively and inefficiently, or by community organizations and private businesses only sporadically (Morris, 1976; Ayubi, 1982; Harris, 1983). Local institutions often lack the incentives, adequate funds, technical expertise, and management capacity to provide services. Thus, in many developing countries there are few services of any kind in areas outside of the national capital (Rondinelli and Ruddle, 1978).

Furthermore, the maintenance of physical infrastructure that does exist is notoriously poor in developing countries, and, as a result, services and facilities deteriorate quickly (Tendler, 1979). The World Bank reports that roads it financed during the 1960s and 1970s are deteriorating so fast that many will be unusable before the borrowing countries can repay the loans for their construction. The cost of needed road maintenance in developing countries is now approaching $40 billion (Roth, 1987a).

The problems of providing and maintaining public services and infrastructure have brought increasing calls for decentralization and privatization, and many governments are now decentralizing responsibilities for service and infrastructure provision, financing and management (Rondinelli, Nellis and Cheema, 1983; Rondinelli, 1987)

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. Two major approaches to analyzing decentralization policies in developing countries have emerged in recent years: one is based on neoclassical economic theories of public choice (Russell and Nicholson, 1981); the other on policy analysis approaches using public finance and public administration theories (Maddick, 1963; Leonard and Marshall, 1982; Cheema and Rondinelli, 1983; Conyers, 1983). The former approach relies heavily on deductive hypotheses about the nature of goods and services, the latter on empirical observations about the characteristics of organizational structures and financial instruments. Neither approach alone offers a comprehensive theoretical or methodological solution to determining how decentralization should be carried out, but both can contribute important concepts and guidelines for designing and

implementing decentralization policies.

In this paper we offer an integrated political-economy framework for analyzing decentralization policies and programs that draws on the most useful concepts in both approaches and identifies the factors that should be considered by policy analysts. We examine the problems with central service provision and then outline the potential benefits and limitations of decentralizing the delivery, financing and management of public services and infrastructure in developing countries. We then offer a framework that addresses:

- the needs of researchers interested in exploring the political, economic and social dimensions of decentralization policies in developing countries for an interdisciplinary approach to analysis;
- the needs of policy designers for a comprehensive framework for assessing potential intervention strategies, and the needs of those engaged in technical assistance and training to identify the factors affecting successful policy and program implementation.

PROBLEMS OF CENTRAL SERVICE PROVISION IN DEVELOPING COUNTRIES

Central government ministries and agencies in most developing countries, for a variety of reasons, are poorly organized to extend services to local communities (Ayubi, 1982; Moris, 1977; Rondinelli and Mandell, 1981; 1981a). First, most central governments are primarily concerned with management of macro-economic policies and with maintaining national political stability, and only secondarily concerned with service provision—except to the extent that it involves large-scale, capital-intensive investments. Second, rarely do internal incentive systems exist for central government ministries to perceive citizens as their clientele, and consequently they do not define their major functions as satisfying citizens' needs and demands. For example, ministries of agriculture and rural development even in many predominantly agrarian countries have been largely unresponsive to the needs of their constituents (Bates, 1981). This attitude also adversely affects pricing policies that reduce food prices for the urban poor in order to maintain political stability, but also discourage agricultural production and reduce the income of the rural poor. Third, central ministries are usually staffed with technicians and professionals who are concerned with the more glamorous and professionally satisfying tasks of constructing large-scale, capital intensive projects rather than with the more routine aspects of service delivery and maintenance (Tendler, 1979; Johnson et al., 1986). Finally, central ministries often provide network-based services, facilities and infrastructure that are more elaborate and technologically advanced than local populations need, and tend to choose new and modern technologies that are expensive to maintain rather than adaptating indigenous or traditional ones that can be maintained locally (Tendler, 1979).

Other problems arise from the way in which centrally-provided local services are perceived by users. Nearly everywhere services and infrastructure provided by central governments are perceived by citizens as free public goods to which they are entitled, rather than as resources that they should be providing for themselves or for which they should pay. Thus, user charges and other forms of beneficiary payment are unpopular, hard to enforce and easy to relax when the central government treasury can subsidize the cost. No price rationing operates to relate supply of a service to real demand. As a consequence, some services may be provided at quantity or quality levels that exceed real demand as measured by willingness to pay. Or the real willingness to pay may be underestimated, and scarce central government resources are drained off from other uses to support local services that could be paid for locally. When exports of oil and other primary products produced large annual increases in central government revenues, this problem was usually ignored. However, central government revenues in most developing countries are now declining.

The monopoly of central government agencies over service provision, the rising costs of providing adequate services and effective maintenance, and tight financial constraints on national governments all combine to restrict severely the ability of most developing countries to meet the growing needs for local services and infrastructure (Cheema and Rondinelli, 1983). With the growing concern over national debt crises and the need to curtail total public sector obligations, the role of the central government in providing local services--and even of the system of central government transfers to local authorities--have come under closer scrutiny. Indeed, in several countries pursuing decentralization programs, such as Thailand (Johnson et al., 1987), Colombia (Johnson, 1985), Mexico, and Nepal (McCullough, 1986), the central government's main motivation has been to reduce the financial burden on the central treasury. Ecuador, Indonesia, Mexico, Malaysia and Nigeria--all faced with declining oil revenues--are attempting to reduce the financial obligations of the central government to provide local services (Hicks et al., 1983; Berry, 1985; Maaruf, 1987). Central government transfers are being used increasingly to induce local governments to raise more resources and to control local expenditures more carefully. This approach has been used in the Calcutta region of India (Banerjee, 1986); is now being introduced in Nepal (McCullough et al., 1986); and has been proposed, but not implemented in the Philippines (Bahl et al, 1981; Ragragio, 1987).

In most developing countries, however, local institutions do not now have the financial resources and management capabilities to provide the wide range of services needed (Rondinelli and Mandell, 1981). Local governments in some countries are using the private sector to deliver public services both by contracting out some parts of service provision or tax collection, and by privatizing entire service agencies. In most

countries, the concept of privatization extends beyond the use of commercial enterprises and includes private community groups and mutual benefit organizations, which also have substantial untapped capacity to provide local services efficiently and effectively (Esman and Uphoff, 1984; Uphoff, 1986). Legal and regulatory constraints, however, often inhibit private enterprises or nongovernmental organizations from playing a stronger role in economic development.

THE CONCEPT OF DECENTRALIZATION

Decentralization embraces a variety of concepts, the feasibility of which must be carefully analyzed in any particular country before pursuing decentralization policies. Rondinelli and Nellis (1986:5) define decentralization from an administrative perspective 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."

Decentralization also can be defined 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, the provision of some public goods is more economically efficient when a large number of local institutions are involved than when only the central government is the provider (Ostrom, Tiebout and Warren, 1961; Buchanan and Tullock, 1962). A large number of providers offer citizens more options and choices. These options can be packaged as different "market baskets" of goods and services that meet the needs of different groups of users. In more advanced economies people can select among local areas providing different combinations of services and facilities by moving to communities with the combination they desire (Tiebout, 1956; Olson, 1965; Ostrom and Ostrom, 1977).

These two perceptions are complementary, although the latter relies heavily in its prescriptions on market mechanisms, while the former allows for a broader range of possibilities, including privatization. Whichever perspective is adopted, however, there are only five major ways in which the provision, financing and management of public services can be decentralized in developing countries. These are through privatization, deregulation; delegation; devolution; and deconcentration (Rondinelli, 1978; Leonard and Marshall, 1982). Each process has different characteristics and different impacts on achieving wider participation in financing and managing goods and services. These are discussed in more detail below.

THE POTENTIAL BENEFITS OF DECENTRALIZATION

Increasing evidence indicates that decentralization of financial resources and management authority to local public and private organizations in developing countries can improve their capacity to provide and maintain local services and infrastructure (Rondinelli, 1978, 1981; Rondinelli and Nellis, 1986; Leonard and Marshall, 1982). Decentralization can overcome many of the biases of central ministries that result in inappropriate or unaffordable services, give local residents better choices and greater access to services, and increase their motivation to pay for and maintain them (Tendler, 1979).

Decentralization can increase the access of people living in previously neglected rural regions and local communities to a wider range of goods and services (Montgomery, 1972; Uphoff and Esman, 1974); increase local participation in co-production, financing and management of local services (Rondinelli, 1986; Uphoff, 1987); and enlarge the capacity of local leaders, through organized interest groups, to put pressure on central and local government agencies for more efficient and effective service provision and infrastructure maintenance (Uphoff and Esman, 1984).

Moreover, decentralization provides the opportunity for "organizational learning" by allowing institutions to offer the types of services desired by different groups of people with different needs, preferences and utilities and for society to learn from these naturally occuring variations in the types, quantity, quality and organization of service (Dunn, 1971; Johnson, 1979). In many countries, decentralization benefits both central governments and local organizations (Rondinelli, Nellis and Cheema, 1983). By bringing about broader participation in development planning and management, it can promote greater political stability and national unity. Greater equity in the allocation of government resources for investment is more likely when representatives of many political, religious, ethnic and social groups participate in making public decisions.

LIMITATIONS OF DECENTRALIZATION

Although decentralization can broaden participation in decision-making and improve the efficiency of service delivery and infrastructure maintenance, it is not always an appropriate prescription for all countries or for solving all types of infrastructure and service problems.

Decentralization policies have encountered serious implementation problems in many developing countries in the past (Maddick, 1963; Conyers, 1983; Rondinelli and Nellis, 1986). Inappropriate policies of privatization and deregulation, for example, sometimes result in the creation of monopolies. Large groups of people with low incomes can be excluded from obtaining goods and services when they are privatized or deregulated. It may be unwise to try to privatize in situations in which

merit goods are involved, in which substantial externalities are not reflected in the accounts of private suppliers, and in which charges cannot be levied on individual consumers (Roth, 1987). Criteria of efficiency and effectiveness must be balanced with those of equity and feasibility in deciding what actions are appropriate in any given situation.

Devolution of authority is sometimes resisted by those who will 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 (Gow and Van Sant, 1985). Moreover, the proliferation of public corporations, parastatal enterprises, special function authorities, agricultural marketing boards, and quasi-public institutes in Africa and Latin America has introduced new inefficiencies in the provision of many services (Shirley, 1983). In some countries it has actually expanded the power and control of the national government at the expense of local governments (Harris, 1983).

APPROACHES TO ANALYZING DECENTRALIZATION POLICY

If decentralization policies are to be implemented successfully they must be designed carefully. Analysis of the services to be decentralized, the characteristics of users, and financial and organizational alternatives must be grounded in an integrated political economy framework. Such a framework should link together the two major disciplinary approaches to analysis: public choice theory and the public policy approach.

Public Choice Approach

Public choice theory can be useful in analyzing the benefits and costs of decentralizing the provision of some public services, expecially those for which user charges can be levied or for which criteria of exclusion can be developed. It also can be helpful in determining the feasibility of deregulation and privatization and in changing the rules for renewable natural resource use (Nicholson, 1981). The application of public choice theory can be most effective in countries where decisions are still being made about whether or not to decentralize, and where decentralization is in early stages of conceptualization. In other countries, where governments have already made the decision to decentralize, analytical techniques must go beyond public choice theory and provide guidelines for policy design and implementation.

The main limitations of public choice theories are their overly rationalistic assumptions and narrow prescriptions (Oppenheimer, 1981). There are strong disagreements among proponents of public choice theory about definitions of concepts and terms (Ostrom, 1986); assumptions and conditions (Baker, 1976); the ability to test theoretical constructs (Moe, 1984) and whether the discipline is sufficiently advanced to allow for empirical testing in developing countries (Hite, 1984). The disagreements are particularly strong over whether or not public choice theories can be used in

institutional analyses. Ostrom (1986:48) points out that, "little agreement exists on what the term 'institution' means, whether the study of institutions is an appropriate endeavor, and how to undertake a cumulative study of institutions."

Institutional economics theorists have been highly critical of the assumption that market transactions are the only effective means of providing services and of neoclassical economists' tendency to ignore institutional factors (Langois, 1986; Nelson and Winter, 1982). Public choice theorists rarely concern themselves with improving the capacity of government agencies to provide more efficiently collective goods that cannot be provided through market mechanisms, a primary concern of governments in developing countries where the private market is still weak or embryonic.

Public choice theories are based on the assumption that people act rationally, always pursue their own economic self-interests, and will make optimal economic choices if left unfettered by government regulations and constraints. But even when decentralization has been justified on economic grounds, most governments have not attempted to decentralize primarily for economic reasons. Indeed, the economic impacts of decentralization have not usually been calculated before policies were enacted. Rondinelli and Nellis (1986) found in their studies of decentralization for the World Bank that many recent experiments with decentralization could not be assessed entirely by economic criteria because they were initiated primarily for political reasons.

Public Policy, Adminstration and Finance Approach

Policy analysts using public administration and finance theories take a different perspective on decentralization than neoclassical economists using public choice theories. The neoclassical economic approach is concerned with macroeconomic issues based on equilibrium models, while the policy analysis approach is concerned with specific decisions usually, but not always, focused on micro-analytical issues. "In so far as the objectives of the policy sciences and the neoclassical approach differ, the competition is not precisely a head-on confrontation," Ascher (1987:8-9) points out. "The difference in temperament is that the policy scientist will tuck the economic theories in among the possibilities, and invoke them only when a more intimate look at a particular context indicates that the economic explanation is warranted." Policy analysis attempts to go beyond, or to place in a broader context, economic factors and takes into account political, behavioral, administrative and other factors that affect policy implementation.

To be useful, any application of public choice theory in developing countries must be combined with policy analysis to assess politically feasible suggestions for intervention by public and private organizations. But if public choice theories need to be operationalized to be useful,

public administration and finance approaches need to be embedded in a stronger conceptual framework in order to make sense of their primarily descriptive methodologies. The study of public administration and finance in local service delivery in developing countries is quite recent, with the major work having been done in the last 20 years. The "discipline" has grown, not from any deductive theoretical base, but from a series of technical assistance interventions and field studies largely of a descriptive nature (Nicholson, 1981). Furthermore, much of the research in this field has been concerned principally--and often inadequately--with documenting existing practices and conditions. The field research has focused heavily on identifying the sources of local government revenue, assessing the equity and strength of those revenue sources, examining the dependence of local governments on central government transfers, identifying bottlenecks in the system of revenue generation and financial management, and examining mechanisms to stimulate greater local resource mobilization (Bahl, 1981).

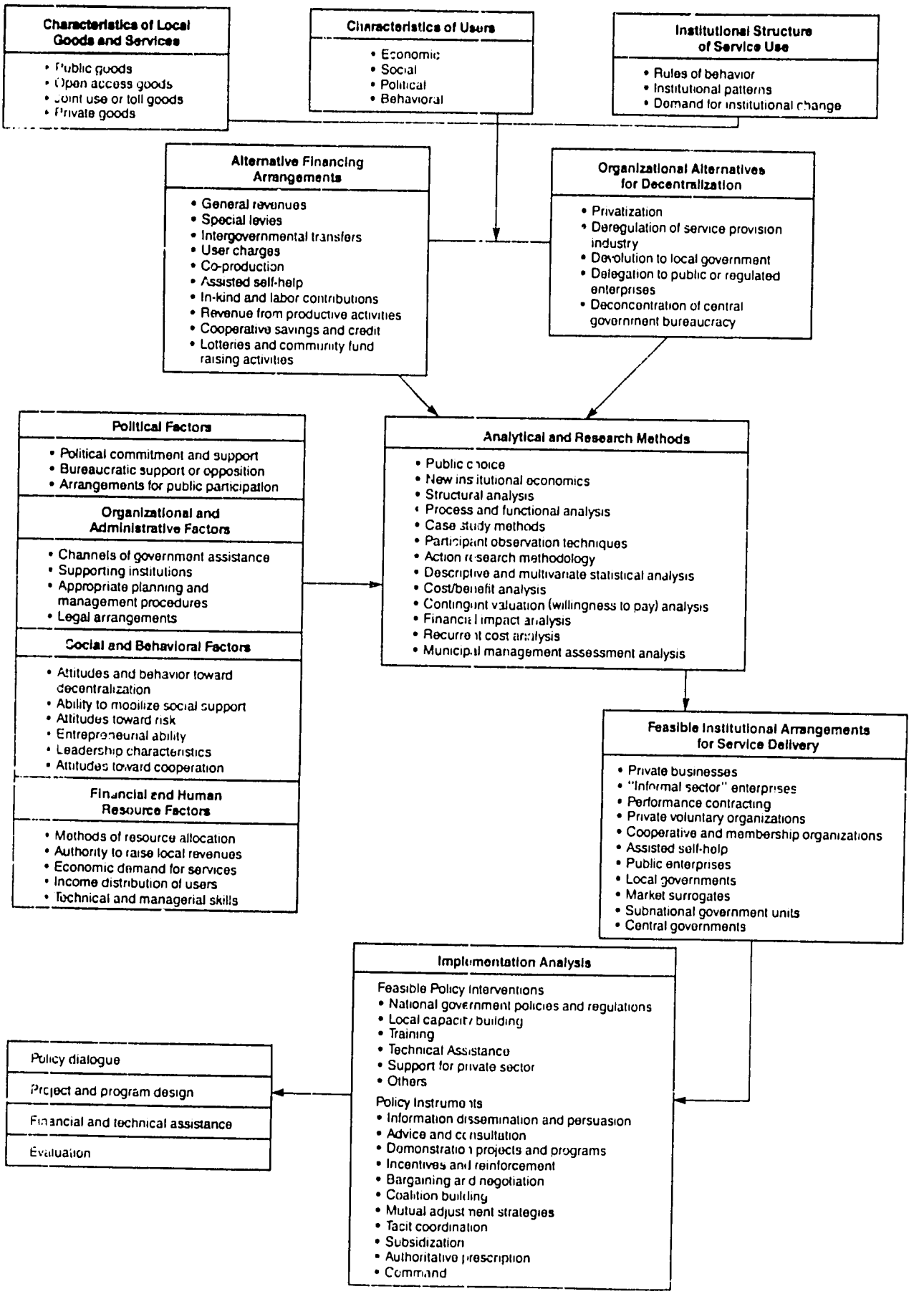
By and large, field research has not dealt with the issues of improving resource utilization (expenditure efficiency), alternative institutions for delivering services (such as private firms and voluntary organizations), or the effectiveness of intervention programs sponsored by the international donor community. Overall, there has been a much greater emphasis on revenue generation than on expenditure controls. This generally reflects the belief that service expenditure levels by local governments are too low.

AN INTEGRATED POLITICAL-ECONOMY FRAMEWORK FOR ANALYZING DECENTRALIZATION POLICY

Although both public choice and public administration and finance approaches to analysis have limitations, both can also contribute to assessing policy alternatives and designing programs for successful implementation. However, in only two areas have neoclassical economic theories been integrated with the public administration and finance approaches. First, the public finance concept of directly charging service users for "private" goods shares a common foundation with public choice theory. Second, practitioners of cost recovery have been experimenting with local community organizations as intermediaries between government service agencies and individual service consumers (Uphoff, 1986.) To be effective, these approaches must be integrated into a political-economy framework that is more systematic and comprehensive in its coverage, conceptually powerful, and applicable in developing countries.

Such a framework is depicted in Figure 1. Its components include the analysis of 1) local goods and services and their users; 2) alternative financial and organizational means of providing services, 3) feasible institutional arrangements for service delivery, 4) socio-economic and political conditions affecting the design of policy and the implementation of programs, and 5) feasible policy

FIGURE 1: INTEGRATED POLITICAL-ECONOMY FRAMEWORK FOR POLICY ANALYSIS



interventions and instruments that can provide guidance for policy formulation project and program design, financial and technical assistance and program evaluation.

Neoclassical economic and institutional analyses provide insight into the functional characteristics of local goods and services and their users, and institutional rules of behavior, and can contribute to assessing alternative organizational and financial arrangements for service provision and feasible institutions for service delivery. Public administration and finance concepts can be most useful in assessing alternative financial and organizational arrangements for service provision, socio-economic and political conditions for policy implementation, and implementation analysis and program design.

Analysis of the Characteristics of Local Goods and Services and Their Users

The analysis of decentralization policies must begin with a clear understanding of which services can be efficiently and effectively decentralized and the political, economic, social and behavioral characteristics of service users. Existing institutional rules of behavior concerning the use of goods and services must be understood before feasible proposals for institutional change can be formulated.

1. Public choice theory offers a set of criteria by which the characteristics of services be categorized and assessed. These include such criteria as: a) excludability; b) jointness of consumption; c) willingness to pay; d) relation of payment to demand and consumption; e) availability of financial resources to pay; f) strength of the public services industry to produce and provide services; g) measurability of the quantity and quality of the service; h) degree of consumer choice in using the service; i) basis of allocation decisions concerning the service (market versus political processes); and j) type of production technology (Olson, 1965; Ostrom and Ostrom, 1977).

These criteria help analysts to categorize services and infrastructure and indicate the most effective and efficient financial and organizational alternatives for their provision and maintenance. Services and infrastructure can be classified into public, open access, joint use and private goods (Buchanan and Tullock, 1962; Mueller, 1979; Ostrom and Ostrom, 1977).

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. Payment (usually through general taxes) for the goods is not closely related to demand or consumption, allocation decisions are made primarily by political processes, individuals generally have little or no choice about whether or not to consume them, and the quantity and quality of such goods are relatively difficult to measure.

Open access goods are those from which people cannot easily be excluded and that are not jointly used--that is, the use by one group of people does not preclude their use or consumption by others. Examples of these types of goods are ground water, common pastures, fish-bearing lakes and rivers, and most other natural resources.

Joint use or toll goods are those which 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 precludes the use of the same goods by others. Utility services, some types of roads, electric power and other such services are joint use goods that can often be provided by market mechanisms.

Private goods are those that can be consumed 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.

This classification of services can help policy analysts determine which of them can be provided by market mechanisms through user charges or individual payment, and which must be provided by public or collective organizations. The functional classification of goods and services can also help determine when market surrogates, co-production, or quasi-market mechanisms might be used to increase the efficiency of public organizations and how to establish the incentives for people to use collective goods more efficiently and responsibly. Analysis of the functional characteristics of services can provide strong clues about the need for deregulation of private provision of goods or the need to regulate markets to minimize or eliminate imperfections or social adversities (Bates, 1981).

2. Policy analysts must also understand the characteristics of service users. Although much of neoclassical economic theory is based on the assumption that people everywhere act on the basis of rational self-interest, human behavior is subjectively rather than objectively rational. That is, interpretations or perceptions of rationality are conditioned by cultural, political and social factors that differ from country to country and even among groups of people within the same country. Political constraints, social taboos, religious principles and well-ingrained economic practices--even inefficient ones--can restrict people from pursuing their concepts of rational self-interest.

Over long periods of time, these restrictions shape peoples' attitudes, mold their behavior in seemingly "irrational" patterns, and influence the type and amount of service they demand. Studies of the behavior of rural populations in developing countries with Islamic and Bhuddist cultures, for

example, note that behavior does not always conform to market-oriented assumptions of Western neoclassical economics. Keyes' (1983:865) studies of Thai villages, for instance, found that "although peasants do seek through rational calculation to maximize the well being of themselves and their families, they are constrained in doing so by particular political and economic conditions within which they live and also by the particular world of meaning in which their actions make sense." Keyes concluded that for Thai Bhuddists "the world is a moral universe in which individual desires, to employ Bhuddist language, are to be brought under control by moral reflection on whether one's actions cause suffering to others."

For all of these reasons, the political, economic, social and cultural characteristics of service users must be understood before alternative organizational and financial arrangements for decentralizing finance and management can be analyzed effectively.

3. Another important aspect of policy analysis must be the identification and assessment of the <u>institutional structure of service use</u>, including the rules of behavior of different groups of users, institutionalized patterns of service use, and the demand for institutional change. Advocates of the "new institutional economics" reject the assumption of public choice theory that economic activity can be explained primarily by price mediated transactions in markets and insist that economic behavior is also conditioned by the structure and operation of a wide range of economic and social institutions (Runge, 1984).

Many of the problems of providing and maintaining services and of dealing with overconsumption or overuse of public resources in developing countries arise from the failure of governments to detect common property institutions and to assume that a resource is unowned and therefore in need of government regulation. But research indicates that people in some developing countries have formulated and maintained detailed and effective regulations and rules of behavior about the use of common resources and public services, while in other countries the nature of open access and collective goods leads some groups to abuse them (McKean, 1986). It is crucial to understand these rules of behavior before the potential for protecting resources and ensuring fair access to services through incentives or regulation can be determined.

Major questions that need to be addressed concerning alternative institutions for dealing with the management of common resources and public services are: 1) who controls the management and rules that determine the timing and rate of use of resources?, 2) who is likely to receive benefits arising from a particular pattern of use or from changes in use patterns?, 3) who is likely to bear the costs arising from changes in institutional patterns of use?, and 4) what organizations play in reflecting social values in resource use? (Batie, 1984).

Other critical issues are how demand for institutional change can be initiated, how institutional changes can be made effectively, and how incentives for new forms of institutionalized behavior can be used to sustain those changes. The emerging literature in the field of induced institutional innovation provides some insights into the dynamics of institutional change. Binswanger and Ruttan (1978) note that the demand for institutional change can result from a variety of sources including: increasing population pressure on existing resources; perceptions of deterioration in service quantity and quality of in resource availability; changes in relative factor prices and factor endowments; technological changes; improvements in the ability of society to supply institutional innovations; and changes in cultural endowments. They claim that shifts in the supply of institutional change are induced by advances in knowledge. Ruttan (1975) points out the intimate relationships between technological and institutional changes, and suggests that institutional transfer is easier in organizations whose operations are primarily concerned with applying a well-developed technology than in organizations that are not technology centered. The capacity of new technology to generate new income streams represents an important source of demand for institutional change.

Analysis of the functional characteristics of services and users, and the institutional patterns of service and resource use can help policy analysts deal with fundamental questions about investment in local services and infrastructure. The questions should focus on whether or not proposed investments are congruent with the desires, capacities and resources of the local population; whether or not demand is distorted by government regulations and processes; whether the community can sustain the investments and maintain them; whether public goods are being overproduced; and whether or not the distribution of costs for investments is consistent with the distribution of benefits (Nicholson, 1981).

Financing Local Service in Developing Countries

After the characteristics of services, users and institutional rules of behavior are identified and analyzed, alternative means of providing services more effectively and efficiently must be assessed. This requires an examination of alternative financing and organizational arrangements.

Financial responsibility is at the core of the concept of decentralization. Among the financing arrangements that should be considered are: 1) adoption of user charges; 2) application of betterment levies; 3) adoption of co-financing; 4) expansion of general revenue sources for public goods; 5) earmarking special revenues or funds from specific revenue sources such as tax charges, import duties, fees and fines, amusement or entertainment taxes or lotteries for rural infrastructure and services; 6) mobilization of government resources (through loan guarantees

or subsidized credit) for borrowing by individuals to obtain services from private providers; 7) exchange of services or labor of beneficiaries in return for extension of services or infrastructure by local governments; 8) use of fiestas, community fairs, and the solicitation of ad-hoc contributions and donations to raise funds for self-help service provision; and 9) creation of small-scale community productive activities to raise funds for services provision and infrastructure construction and maintenance (Rondinelli, 1986).

If decentralization is to have a real impact on enabling local organizations to provide services and infrastructure more effectively, both public and private local organizations must have stronger authority to raise revenues and to generate larger amounts of revenues. These conditions are not the same because in many countries local administrative units possess the legal authority to impose taxes, but the tax base is so weak or the dependence on central subsidies so ingrained that no attempt is made to exercise that authority

Local income generating activities can cover a wide spectrum, from charging user fees for services to establishing an enterprise specifically devoted to raising funds for service provision. Personal property and real estate taxes, cesses on sellers and buyers in local markets, school fees, portions of income derived from locally-marketed natural resources (e.g., forest products), and profits derived from industries owned and operated by local authorities are a few of the ways in which local organizations have been able to generate revenues. The Harambee self-help movement in Kenya demonstrated that large sums could be raised from poor rural people when projects clearly meet their needs and were implemented by local organizations (Rondinelli and Nellis, 1986). Introducing financial management and municipal development support in Nepal resulted in a 69 percent increase in own-source revenue collections in the eight panchayats in which the project operated (McCullough, 1986). In Zaire, rural infrastructure in North Shaba is financed by Ponts et Routes Agricoles de l'Est (PRE), a local organization created by an internationally assisted rural development project that generated enough economic growth in the region to permit taxation without inhibiting merchants' willingness to invest in local enterprises (Goldensohn, 1986).

A wide range of possible financial sources and mechanisms is available at the local level in developing countries to pay for services and infrastructure without relying only on central government funds. The analysis of financial arrangements must be concerned with who pays, how the payment amount is determined, and what form the payment may take.

User charges are likely to become a major source of financing local services in developing countries for two reasons: one is that general revenues from central government treasuries are stag-

nating or committed to other types of expenditures of higher national priority, and the other is that general tax revenues of local governments can only be increased so much without a corresponding increase in service quality and quantity. User charges tie the receipt of the service directly to the amount paid. User charges can also reflect differences in ability to pay by incorporating sliding scales for type of user or amount of usage. User fees have other benefits beyond raising revenues. Committing resources usually makes the contributors more concerned with the success of development investments (Gow and VanSant, 1985). These commitments can be either in cash or in kind and can be generated through membership fees, quotas determined by family size, or some form of recycling of benefits.

In addition to user fees, there is considerable scope for improving the effectiveness of local tax collections. Numerous studies indicate that local governments in developing countries collect as little as 40 to 60 percent of the revenues actually owed to them (Johnson, et al., 1983; Johnson, 1984; 1985; 1986.)

Although the need to decrease them is one of the primary incentives for decentralization, central government transfers are still a major element of financing local services and infrastructure (Johnson, 1985; Prakash, 1988). Transfers can take many different forms, and there are often great discrepancies between the formal allocation formulas and the actual transfers. In general, transfers can be made on a shared tax basis (returning some portion of a centrally-collected tax to the jurisdiction), a formula grant, an ad hoc-grant, or a reimbursement grant for certain specific types of expenditures.

At least in the early stages of decentralizaton, policy analysts will have to assess more effective means of promoting intergovernmental transfers in the form of block grants, vouchers, special purpose grants and local budgetary support to encourage the decentralization of service provision from central to local governments and private organizations, since the driving force behind decentralization in many developing countries is the need to reduce subsidies to parastatal enterprises (Nellis, 1986; Shirley, 1983). The critical issue is how to arrange the necessary central government support so that the local community retains the sense of ownership and, hence, responsibility for maintenance.

Another important means of recovering costs or of increasing the capacity of people to pay for services in poor communities is to extend services that involve or promote employment for community residents (Rondinelli, 1986). Using labor-intensive methods of construction and paraprofessional staffing can often involve the beneficiaries themselves in service provision and infrastructure maintenance (Esman, et al., 1980).

Finally, the need and demand for additional revenue can be reduced by improving service delivery performance. As noted earlier,

little attention has been paid to the efficiency of local government expenditures in developing countries, although this aspect of service delivery is as critical as revenue raising in improving service performance. Field studies have found that the bulk of local government expenditures goes for personnel costs, and that much of the labor expenditure is unrelated to the provision of services (McCullough, 1983; McCullough and Stuebner, 1985). Increasing attention by international assistance organizations to the efficiency of local expenditures is leading to efforts to improve the quality and quantity of local services relative to costs through performance management assessments and management improvement programs (Johnson, et al., 1986; Johnson, 1987).

Organizational Arrangements for Decentralization

There are five major organizational forms of decentralization that policy analysts must assess and compare. These are privatization, deregulation of private service provision, devolution to local government, delegation to public enterprises or publicly regulated private enterprises, and deconcentration of central government bureaucracy. For each organizational form several institutional alternatives may be feasible.

1. Privatization and Deregulation

There is a growing interest among governments in developing countries in privatizing many services and facilities that they now provide. Through privatization and deregulation some governments have divested themselves of responsibilities for functions either by transferring them to voluntary organizations or by allowing them to be performed by private businesses (Cheema, 1983; Roth, 1987). In some cases, governments have transferred responsibility to 'parallel organizations' such as national industrial and trade associations, professional groups, religious organizations, political parties or cooperatives (Rondinelli and Nellis, 1986). These parallel organizations have been given responsibility to license, regulate or supervise their members in performing functions that were previously performed or regulated by the government (Leonard and Marshall, 1982).

Private voluntary organizations can play a crucial role in expanding access to services and infrastructure. Voluntary organizations in Sri Lanka, for example, have come to play an important role in delivering services to meet basic human needs. 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 programs. They operate rural development projects and community self-help programs that provide social overhead capital--roads, water tanks, irrigation, canals, sanitation facilities, and wells. Many provide working capital for local, small-scale agricultural and handicraft projects, and market

outlets for the goods produced in villages (James, 1982).

Maintenance of irrigation channels and equipment in the Philippines has been done successfully by Irrigation Service Associations composed of small-scale farmers who are willing to make productive investments in the land they cultivate (Steinberg, 1980). There is growing evidence that, with appropriate inducements, road maintenance and other local services can be performed by community associations more efficiently than by an overburdened central government (Roth, 1987a; Anderson and Vandervoort, 1982). Matching grants or other inducements can be used to persuade property owners to form associations held together by deed-based covenants.

Local governments also privatize by contracting out some government administrative functions. This approach holds great potential for lowering the current operating expenditures of local governments since personnel costs tend to be the largest expenditures in operating budgets. In Nepal, many town governments already use private contractors to collect local taxes (McCullough and Stuebner, 1985). In Jordan, some cities auction off the right to collect market taxes (McCullough, 1985) and in Tunisia and in Sri Lanka, municipal markets are rented under tender to private merchants on a annual basis (Minis and Johnson, 1982; McCullough, 1984). Local governments in some developing countries are turning to private consulting firms to fill technical positions such as engineer and accountant, since local government pay levels are often too low and skilled professionals may not even be available. For these reasons, local authorities in Sri Lanka are considering using local accounting firms to run many of their financial management activities (McCullough, 1984).

Small individual or family run "informal" enterprises can also provide a significant number of local goods and services, particularly to lower income users (Montgomery, 1988). Small-scale entrepreneurs can be used effectively in such activities as road maintenance (World Bank, 1981; Cook, Beenhakker and Hartweg, 1985). Local roads projects in Kenya, for example, make heavy use of individuals and informal sector enterprises in road construction. Maintenance is also carried out by individual workers--both men and women--under performance contracts supervised by road engineers (Anderson and Vandervoort, 1982).

Performance contracting can be most effective in situations where efficiencies in service provision arise from economies of scale, where greater productivity can be obtained from hired labor or professionals than from the civil service, and where contractors can make use of part-time labor or less labor-intensive methods of operation. Private contractors are often free from the severe labor practice restrictions of civil service regulations and seek minimum cost approaches to service delivery in order to maximize their profit margins (Ferris and Graddy, 1986; Roth, 1987).

2. Delegation

In some cases, government may decentralize by shifting responsibility for producing goods and supplying services that were previously offered by central government agencies and ministries to parastatal or public corporations or to publicly regulated private enterprises. More often, government transfers responsibilities to organizations representing specific interest groups in society and that are established and operated by members of those organizations (Uphoff and Esman, 1974). These include farmers' cooperative organizations, trade unions, or women's and youth clubs (Ralston, Anderson and Colson, 1981; Esman and Uphoff, 1984; Uphoff, 1986).

Often the organizations to which public functions are delegated have semi-independent authority to perform their responsibilities, and may not be located within the regular government structure. Functions are being delegated from central ministries to public corporations, regional planning and area development authorities, multi-purpose and single-purpose functional authorities, and project implementation units in many developing countries. Delegation implies the transfer or creation of broad authority to plan and implement decisions concerning specific activities--or a variety of activities within specific territorial boundaries--to a semi-autonomous public or private organization that is technically and administratively capable of carrying them out (Rondinelli, 1979, 1981). The response of many governments to the severe limitations on public administration capability and financial resources in much of the Third World has been to delegate more functions to public corporations and special authorities. The experience of such organizations is mixed, however, and in many countries governments are now trying to dismantle some of those parastatal "empires" (Nellis, 1986; Shirley, 1983; Jones, 1982).

3. Devolution

Service provision and maintenance can often be improved by devolving responsibilities to local governments or administrative units (Mawhood, 1983; Friedman, 1983). Devolution requires that local governments be given autonomy and independence and be clearly perceived of as a separate level over which central authorities exercise little or no direct control. Local governments should be given clear and legally recognized geographical boundaries over which they exercise authority and within which they perform public functions. Devolution is an arrangement in which there are reciprocal, mutually benefitting and coordinate relationships between central and local governments; that is, the local government has the ability to interact reciprocally with other units in the system of government of which it is a part (Sherwood, 1969).

Nigeria devolved a wide range of statutory local functions such as maintenance of law and order, construction and maintenance of public roads and bridges, formulation and implementation of rural

development schemes, agricultural development and the provision of health, water and housing to local governments in 1976 (Kolawole, 1982; Okafor, 1982). Local governments then became the only legally recognized level of government below the state level. Some local council members are elected directly and others are appointed by state governors. Both the federal and state governments are required annually to make statutory grants from their budgets to local governments. Localities also have some powers to raise their own revenues, but these are limited (Idode, 1980).

4. 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 field or local level. These are often "network" based services that require large investments in capital equipment, and that must be linked together in a system in order to operate effectively, those that have high political saliency or sensitivity, those from which a politically important group such as the poor or a minority would be excluded if they were provided privately, or those with strong implications for public health, safety or welfare (Montgomery, 1988).

If central government leaders are unwilling to decentralize services, analysts must be prepared to assess how central governments or their subnational agents can provide the services more efficiently and effectively. Even for the public goods and services that must be provided by central government, however, there are institutional arrangements that help to make service delivery more responsive to users' needs, and the delivery process more efficient and effective. The least extensive form of decentralization, but an important step in highly centralized countries, is to deconcentrate central government institutions. In its weakest form deconcentration merely involves the shifting of workload from central government ministry headquarters to staff located in offices outside of the national capital. The 1985 earthquake in Mexico City, for example, hastened an existing program to relocate many central government agencies outside of the capital in order to deconcentrate activities as part of an overall decentralization policy (World Bank, 1986). In highly centralized governments even shifting workload can be a crucial first step that allows agencies to learn to be more responsive and can lead to greater decentralization later. More extensive forms of deconcentration include creating field offices for national agencies and establishing local or provincial administrative units (Rondinelli, 1981).

Those local services over which the central government retains control for political reasons can often be improved through "market surrogate" arrangements. A market surrogate approach has been defined as one that seeks to improve performance in public sector institutions by institutional reforms or designs which offer some important efficiency elements of markets--which increases incentives

by enhancing competition, choice and accountability—in a nonmarket setting" (Lamb, 1982). Market surrogate strategies can have two major components, one that alters the competitive environment in which an organization must operate so that pressures are greater for it to improve its service delivery in order to survive; the other, that rearranges conditions within the organization so that internal incentives reinforce the competitive pressures from the external environment (Roth, 1987).

Analysis of Socio-Economic and Political Factors Affecting Policy Implementation

The ability of governments to implement any of the alternative financial and management arrangements described earlier depends on the existence of, or the ability to create, appropriate political, administrative, organizational and behavioral conditions. Rondinelli, Nellis and Cheema (1983) have identified a number of factors that affect the implementation of decentralization programs in developing countries.

1. Research indicates that successful implementation of decentralization policies depends heavily on political factors. Strong political commitment and support must come from national leaders to transfer planning, decision-making and managerial authority to field agencies and lower levels of administration, or to the private sector. Political leaders must be willing to accept the participation in planning and management of local organizations that are outside of the direct control of the central government or the dominant political party. Support of and commitment to decentralization must also come from line agencies of the central bureaucracy and central government officials must be willing to transfer functions previously performed by them to local organizations. Decentralization usually requires strong administrative and technical capacity within central government agencies and ministries to carry out national development functions and to support—with adequate planning, programming, logistical, personnel and budget resources—their field agencies and lower levels of government in performing decentralized functions. Finally, effective channels of political participation and representation must be developed that reinforce and support decentralized planning and administration and that allow citizens, and especially the poor, to express their needs and demands and to press claims for national and local development resources.

2. Organizational factors conducive to decentralization include the appropriate allocation of planning and administrative functions among levels of government and local organizations with each set of functions suited to the decision-making capabilities of each level of organization. Decentralization requires laws, regulations and directives that clearly outline the relationships among different levels of government and administration, the allocation of functions among organizational units, the roles and duties of officials at each level and of cooperative and private

organizations, and their limitations and constraints. Decentralization must be supported by flexible legal arrangements, based on performance criteria, for reallocating functions as the resources and capabilities of local organizations change over time. Clearly defined and relatively uncomplicated planning and management procedures for eliciting participation of local leaders and citizens and for obtaining the cooperation or consent of beneficiaries in the formulation, appraisal, organization, implementation and evaluation of service provision programs are also needed.

3. Behavioral and psychological conditions supporting decentralization include appropriate attitudes and behavior of central and lower level government officials toward the decentralization of service provision and maintenance, and a willingness on their part to share authority with citizens and accept their participation in public decision making. Effective means must be found for overcoming the resistance, or getting the cooperation, of local elites and traditional leaders. A minimum level of trust and respect must be created between local organizations and government officials, and a mutual recognition that each is capable of performing certain functions and participating effectively in various aspects of financing and management. Strong leadership must be developed within local organizations and private enterprises that will allow them to deal effectively with local and central governments.

4. Financial and human resource factors required for decentralization include granting sufficient authority for local units of administration or government, cooperative and private organizations to obtain adequate financial resources to acquire the equipment, supplies, personnel and facilities needed to carry out decentralized responsibilities.

Ultimately, the success of decentralization policies hinges on institutional capacity-building. The institutional capacity of local public and private organizations to finance and manage service provision and maintenance, and of central governments to facilitate and support decentralization, must be strengthened (Rondinelli, 1978; 1981; 1982; Leonard, 1983; Uphoff, 1986). In general terms, capacity may be defined as the ability to anticipate and influence change, make informed decisions, attract and absorb resources, and manage resources to achieve objectives (Honadle, 1980; Van Sant et al., 1987).

Policy and Program Implementation Analysis

Policy analysts must find the best combination of feasible policy interventions to facilitate and support the decentralization of service provision, financing, and management. Among the options are changes in national government regulations and policies; local capacity building; training; financial assistance; technical assistance; and, support of private sector development.

Often, decentralization can be initiated simply by creating sets of preconditions -- through prices, subsidies and rewards -- that induce local officials and organizations to finance and manage services and infrastructure. International organizations can provide assistance for decentralization most effectively by helping to build the capacity of local administrative units and private enterprises. The most urgent needs of African countries, for instance, are for personnel training in managerial and technical skills and for generating local financial resources (World Bank, 1981a). The need for personnel training is especially urgent at the provincial and district levels in most African and Asian countries (Rondinelli, 1987), and at the municipal level in Latin and Central American countries (Ozgediz, 1983).

An important challenge for policy analysts will be to identify and test instruments for implementing decentralization policies and programs that rely less on central control and more on incentives and exchange. A variety of instruments for policy intervention should be assessed, including information dissemination and persuasion, advice and consultation, demonstration projects and programs, incentives and rewards, bargaining and negotiation, coalition building, mutual adjustment, coordination of existing activities, subsidization, authoritative prescription, and command (Lindblom, 1965; Olson, 1965; Mehrabian, 1970; Rondinelli, 1975; 1976).

The state of knowledge about how to implement institutional changes is still weak and here political and organizational theories can be quite useful. Downs (1967) has generated a number of propositions about the dynamics of change in bureaucratic institutions. He contends that institutional change is more likely to occur in organizations with more unstable environments, and in which there is weak consensus about what they should be doing. Downs claims that the larger the institution the more reluctant it will be to adopt changes, and that small institutions tend to be more flexible and innovative than larger ones. Leaders of institutions tend to oppose changes that cause a net reduction in the amount of resources under their own control or decrease the number, scope, or relative importance of the social functions entrusted to them. Rivalry or competition among institutions, however, can generate creativity that leads to innovation and change.

Institutional economists correctly point out that it is not only necessary to understand the functional characteristics of institutions, but also their history of evolution. Nelson and Winter (1982) argue that the capabilities and rules of institutions change over time as a result of both deliberate problem solving and random events. Unless policy analysts understand the evolution of institutions and the causes of past changes in capabilities and rules, they cannot prescribe feasible institutional changes.

Political theory also provides useful insights into the relationships among interest group behavior, institutional change and decision-making on issues that will be decided by political processes. Lowi's (1972) work on differentiating the types of political interaction and the relationships among interest groups on various policy issues offers guidelines for implementation analysis in developing countries. He notes that different types of interest groups become involved and interact with each other in different ways on distributive, regulative, constituent, and redistributive policies. Classifying the policy arenas in which issues will arise is critical to understanding how interest groups might behave and which groups are likely to participate, but little work has been done thusfar on testing the applicability of these categories and the propositions derived from them in developing countries (Grindle, 1980; Cleaves, 1980).

The political dimensions are crucial because even in non-democratic regimes decisions made about institutional change result not from rationalistic calculation but from political bargaining and negotiation. The implications of the trade-offs between economic and political rationality must be analyzed carefully, and the implications for designing decentralization policies and programs must be given special attention. Information dissemination, educational, and persuasion techniques are often more effective than threats, pressures and punishments in eliciting cooperation and generating innovative approaches to problem-solving. But central government and local officials in many African and South Asian countries have a long tradition, stemming from colonial experience, with the latter methods of governance and little experience or knowledge of the former (Rondinelli, 1982; 1983).

Although much more must be learned about the factors that affect decentralization policy, program and project implementation in developing countries, research on decentralization in more than two dozen countries undertaken by Rondinelli, Nellis and Cheema (1983) identifies a number of lessons that should be reflected in the design and management of programs and projects:

1. Small-scale decentralized programs designed for limited impact are likely to generate more positive and durable results than large-scale, sweeping organizational reforms. Programs should, therefore, be planned on a small scale and expanded incrementally.

2. Abstract and complex programs and procedures are unlikely to be implemented effectively in most developing countries and therefore decentralization programs should be kept as simple, flexible and appropriate to the management capacities of local organizations as possible.

3. Decentralization requires a lengthy period of gestation before its benefits will be realized, and programs must therefore be planned for the long term. Because decentralization often goes against the grain of tradition and custom r

against the interests of some groups whose support is important for its success, it cannot be implemented without conflict. Successful decentralization programs often require a long period of testing during which political support and commitment must be mobilized.

4. 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. Programs should therefore be planned "tutorially."

5. Decentralization programs can benefit from the involvement of international donors, but when aid agencies are relied upon too heavily for financial and technical assistance, long range impacts may be constrained. Programs should be planned with donor involvement, but at the same time for the gradual phasing out of their activities

6. Decentralization programs that include a component for training central administrators, local officials and leaders of local organizations will be more likely to have a positive effect than those that do not.

7. Decentralization programs that transfer adequate financial resources and the authority to mobilize resources locally, as well as additional powers and responsibilities, will be more successful than those that merely call for consultation with or participation of local officials and private organizations.

CONCLUSION

In brief, the growing interest of governments in developing countries in decentralizing the provision, financing and maintenance of local services and infrastructure will require a more comprehensive and integrated framework for policy analysis than is offered by either neoclassical economic theories or public administration and finance theories. An integrated political-economy framework that draws from the most useful aspects of each set of approaches can provide policy analysts with a more powerful set of concepts and methods for designing and implementing decentralization policies more effectively. Such a framework can help analysts to understand better the characteristics of services, their users and institutional rules of behavior, the feasibility of alternative financing and organizational arrangements, and the political, economic, administrative and financial factors that affect policy outcomes, and to assess alternative strategies for policy implementation.

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