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# Sustainable Local Economic Development

Decentralization and Local Economic Development

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# Session Overview

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Definition and forms

Assignment of functions

Exercise

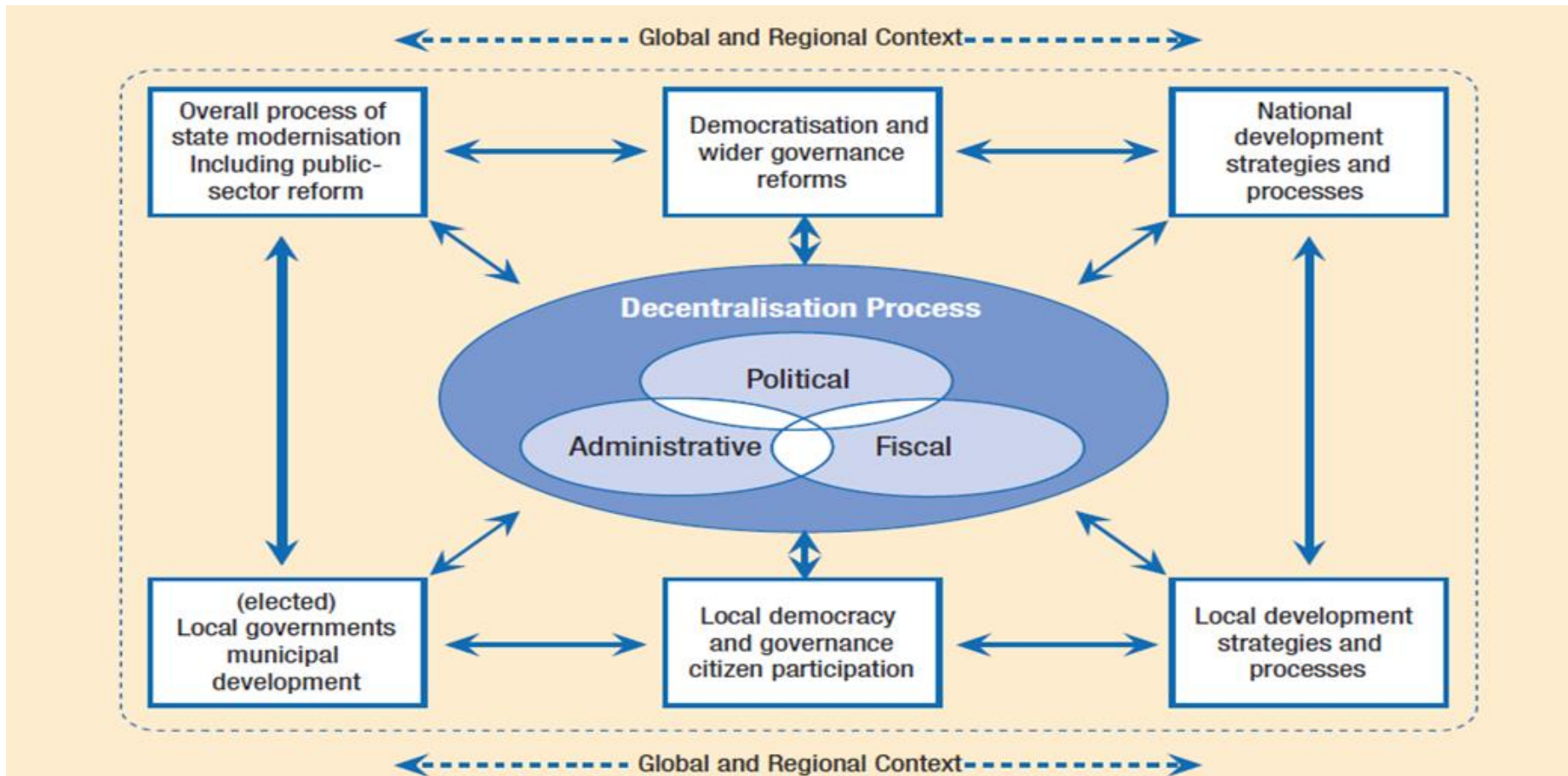
Legal framework

Vertical and coordination

Human resource issues

Capacity development

# Decentralisation as 'open system'



# Definition

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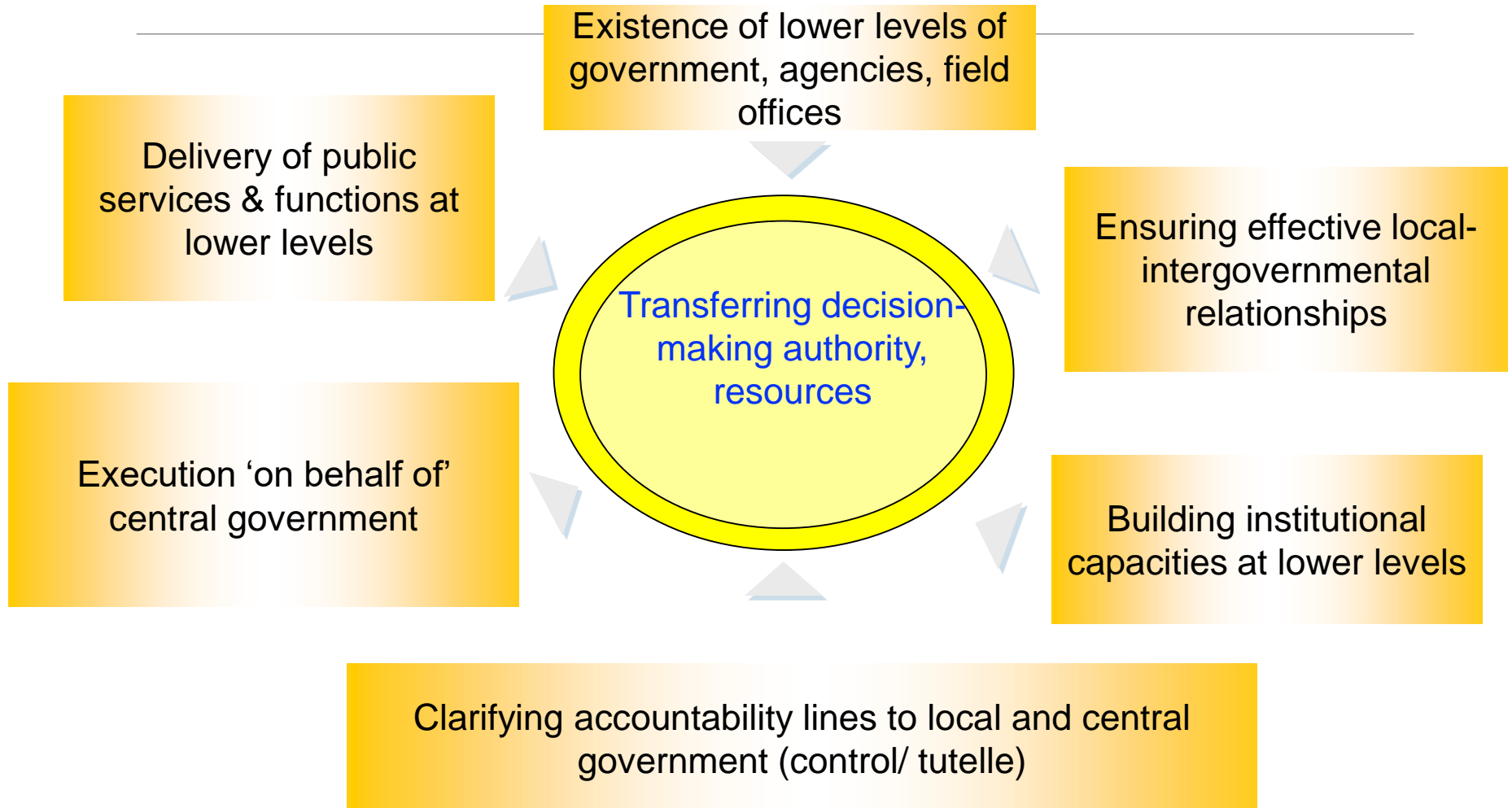
Administrative decentralisation is the transfer of responsibility for planning, financing and managing public functions to:

- Field units of government agencies
- Subordinate units or levels of government
- Semi-autonomous public authorities or corporations

# Administrative decentralisation

This means: a redistribution of authority, responsibility and financial resources among different levels of government and beyond

# Ingredients



# Forms

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## Deconcentration

*Shifting decision-making power to central government officials located outside the capital, fully accountable to the center*

## Delegation

*Shifting responsibilities to semi-autonomous government bodies or NGOs ultimately fully accountable to the center*

*(service agencies, housing authorities, school districts etc)*

## Devolution

*Shifting fiscal powers and decision-making responsibilities to subnational governments in which subnational governments are granted substantive decision-making authority*

# Divestment/privatisation

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*Public functions transferred from government to voluntary, private or non-governmental institutions.*

Governments contract out or fully privatise public services or administrative functions .

Often accompanied by:

Deregulation reducing legal constraints in service provision

Competition among private suppliers for services previously provided by the government or regulated monopolies.

# Specific guiding principles

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SGP 2: Take the decentralisation and local governance context as a starting point

SGP 4: Take into consideration the stages of maturity of the decentralisation and local governance in specific countries

SGP 5: support an informed decision process on assignment of functions to local governments; there are no hard and fast rules about which functions to local governments should be assigned to which level of government

# Adapting to national systems

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Each country is characterised by its own mix of deconcentration, delegation, devolution and divestment

Differences between unitary or federal systems, Francophone or Anglophone traditions or communist backgrounds

Sectors within a country have their own mix and sector specific regulations depending on the type of public service provided

# Assignment of functions

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Musgrave's role of the public sector:

Provide a stable economic environment

Promote a more equitable distribution of income/resources

Assure a more efficient allocation of resources (when markets fail)

*But, no-one says that these can all be done best by the central government!*

# Assignment principles

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Public services should be provided at the lowest level of government that can do so efficiently (*subsidiarity principle*)

Public services should be provided at the level of government compatible with the '*benefit area*'

Public services should respond to the *heterogeneity of preference* rationale

Public goods and services should be provided by the tier that can best realise *economies of scale*

# Subsidiarity principle

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*European Charter on Local Self-Government*, article 4:

Public responsibilities shall generally be exercised, in preference, by those authorities which are closest to the citizen. Allocation of responsibility to another authority should weigh up the extent and nature of the task and requirements of efficiency and economy.

Powers given to local authorities shall normally be full and exclusive. They may not be undermined or limited by another, central or regional, authority except as provided for by the law.

# No single 'best' assignment (SGP 5)

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Functions that are typically decentralised to the local government level include:

Basic education, basic health services, agricultural extension, (rural) water supply, local roads

Urban services (public utilities, roads, sanitation)

*Note that many of these functions are closely related to achieving the MDGs !*

# Multilevel governance

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For concurrent functions, responsibility can be assigned separately for:

**policy and regulation:** often central government

**financing:** local social services most often financed centrally, local economic functions can be financed locally

**provision/delivery of the service:** often by local authorities

# Exercise

1. ASSESS THE EXISTING FORMS OF ADMINISTRATIVE DECENTRALISATION IN THE SECTOR YOU WORK IN.

2. THEN IDENTIFY THE RESPONSIBILITIES OF THE DIFFERENT GOVERNMENT LEVELS FOR THE SECTOR YOU WORK IN WITH RESPECT TO:

- POLICY & REGULATION
  - FINANCING
  - PROVISION AND DELIVERY OF THE SERVICE
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# Legal framework

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Basis for decentralisation, definition of rights and duties to all parties, levels and institutions involved:

- Constitution: defining broad principles, roles and responsibilities of institutions at different levels
- Laws: defining intergovernmental fiscal system and institutional details of the local government structure
- Regulations: interpreting and detailing practices and measures by which the laws will operate

# Legal framework

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But a law cannot act on its own, since it is enacted, enforced and shaped by society...

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(inter)  
national law

Ancestral/  
customary law



Market law

Religious  
law

Decentralised  
law

# Intergovernmental arrangements

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Code of Interadministrative Relations, The Netherlands

Contrats de projet État-Région, France

*Other examples?*

# Civil service reform

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Decentralisation is a process of civil service reform with consequences not only for the local but also for central government:

has to promote and sustain decentralisation by developing appropriate and effective national policies and regulations for decentralisation.

coordination task becomes more complicated in case of shared rather than exclusive responsibilities!

# Kampala Call to Action

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Role of central government:

Give *sufficient autonomy* to LAs to exercise leadership, foster innovation in development, mobilise local resources and stimulate citizenship;

Stimulate a *development oriented and democratic mindset* of local governments;

Overcome bureaucratic obstacles and develop *capacity* to supervise and support local authorities;

Establish necessary structures for effective *intergovernmental relations* to ensure cooperation and consensus on localising the MDGs.

# Implementation challenges

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Shifting roles and responsibilities cause numerous challenges for the implementation of administrative reforms:

Vertical coordination between the different government levels (control and oversight, information and monitoring)

Horizontal coordination: (regional) cooperation between similar levels of government

Human resource issues and capacity development

# Vertical coordination

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Coordination becomes more complicated in case of shared rather than exclusive responsibilities.

Supervision and monitoring necessary to verify compliance with policy goals, analyse alternative outcomes and guide future decisions.

Must be supported by systematic collection, analysis and reporting of information.

Deconcentrated offices can assist in data collection and supervision, and provide guidance to local governments.

# Vertical coordination II

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How to ensure a certain degree of monitoring of quality performance without compromising the newly found subnational decentralisation, ending up in de-facto recentralisation?

Role of LGAs to address concurrent coordination issues and to represent the interests of LGs

Ministry of Local Government charged with the implementation of decentralisation

# Horizontal coordination

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Regional or inter-municipal cooperation and territorial planning, in order to:

- Realise joint investments in infrastructure
- Foster regional economic development
- Manage natural resources
- Manage local services (economies of scale)
- Inter-sectoral coordination
- *Examples?*

# Horizontal coordination II

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Another form of horizontal coordination are the associations of municipalities, unions of mayors, chief executives or professionals, aiming to:

- Defend and promote the wider interest of the group vis-a-vis central level (*lobby*)
- Share lessons and experiences (*knowledge and capacity development*)

# Human resources

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Administrative decentralisation means empowering sub-national governments to hire a civil service that matches community needs and budget constraints

- Hiring and firing government workers in service sectors
- Fill open positions without permission from the central government and by setting the job qualifications
- Determine salary levels and supplement salaries on a performance basis
- Determine the number of positions of government employees at the local level.

# Human resources - challenges

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Skewed distribution of human resources (*regional inequalities*) because skilled civil servants mostly prefer to work for the more developed areas.

Smaller units of government have less opportunity to build expertise (*lack of skilled staff*). Exacerbated when responsibilities are divided up among smaller jurisdictions.

# Human resources - solutions

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Cadre system in which highly skilled civil servants rotate between more and less developed regions (India)

Sending skilled servants from central government to less developed areas (Ethiopia)

Incentives to people who work in difficult/unpopular areas (Tanzania)

Pooling resources for specialised staff, or central consultancy services

*Other examples?*

# Capacity Development

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Subnational levels have to adapt to their newly assigned responsibilities in service delivery

National level has to create conditions, set standards and supervise

National government has to 'let go'

*More on this during the afternoon discussion and on Day 4*

# Reference and source

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