Decentralization Examined: Conditions Dependent Path Towards Success

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When a country undergoes the process of decentralization, it requires a transfer of authority, responsibility, and/or resources from the national to lower levels of government, with the purpose of creating good governance. If successful, decentralization should make government more accountable to its people, improve the balance of power, and make government more efficient. However, an examination of the empirical findings from several case studies suggests that decentralization can oftentimes fail to usher in the type of reform that it is associated with. Furthermore, decentralization can encounter impediments to its success either in the failure to fully implement the policy of decentralization, a shift towards re-centralization, or an inherently incoherent policy framework. The success of decentralization is thus contingent upon several factors including but not limited to the sequence of decentralization, the incentives of political actors, and the institutional design upon which it is implemented.

Over the last three decades, the movement towards decentralization has only expanded. Political decentralization, which entails opening up representation to lower level polities and devolving political authority to sub-national actors, has increased dramatically since the 1970s from 30% to

86% of all countries.¹ Fiscal decentralization, the incidence of establishing a set of policies designed to increase the fiscal autonomy of sub-national actors, has also increased since the 1970s by 12%.² Finally, administrative decentralization, the devolving of administrative and delivery functions of social service from the national to the sub-national level, has likewise increased.³ Although the increased trend towards decentralization has in part been a response to international pressure (directed toward the global south) from international organizations like the International Monetary Fund (IMF) and World Bank, the widespread perception of decentralization from politicians and scholars alike seems very positive.⁴

Sequential Decentralization

Although many assume that decentralization should naturally lead to an increase in the power of sub-national actors vis-à-vis the federal government, there is no guarantee that decentralization necessarily facilitates an increase in the power of local politicians. To account for the variation in power that sub-national political actors receive after the onset of decentralization, some decentralization scholars insist that the sequencing of the types of decentralization is

what drives the intergovernmental balance of power.⁵ While the central government would prefer to see the sequence of decentralization as administrative, fiscal, and political decentralization (A>F>P) the sub-national governments would prefer to see political, fiscal, and administrative decentralization (P>F>A).⁶

The sequence that gives more power to sub-national governments is political, fiscal, and administrative decentralization (P>F>A).⁷ This mechanism enhances the durability of decentralization in a polity by reducing the influence of national level actors in sub-national affairs, which makes it less likely that

Former President of Colombia Belisario Betancur.

efforts to roll back decentralization or even to weaken its effects will succeed. Pursuing political decentralization first has the effect of producing a "ratchet effect."⁸ Sub-national politicians who see that their political power and autonomy are tied to the fate of the recent decentralization policy will play an active role to ensure that the process of decentralization continues and that they can help guide the policy in the "direction of further decentralization."⁹ Thus, decentralization can be sustained through the formation of this new political base of support that will act as a buffer against efforts to stymie the progress of decentralization. Another critical side effect that will emerge from political decentralization is the increased reliance of the President on

the support from mayors and governors in order to win votes.¹⁰ This will further enhance the power of the mayors and governors vis-à-vis the executive and will likely put them in a better bargaining position to lobby for fiscal decentralization.

Fiscal decentralization will be the next stage in this decentralization sequence. Sub-national authorities must have the funds needed to ensure their ability to handle the complex tasks involved in the provisioning of public goods to their many residents, a responsibility previously administered by the central government.¹¹ Once fiscal policies are decentralized, administrative decentralization will progress. Mayors and governors now given more fiscal autonomy will be less reliant on the national government and can further cement their own power bases, leading to increased administrative capability.¹² In this arrangement, mayors and governors in their preferred sequence would ensure that they could address the concerns of their geographic constituents.

The results of the sequential theory of decentralization are borne out in the case studies of Colombia and Argentina. In Columbia, decentralization was pursued in the order of political, fiscal, and administrative, which allowed for power to devolve locally and gave local leaders enough autonomy and resources to adequately administer their new responsibilities. However, in Argentina the order of decentralization was administrative, fiscal, and political; as a result, the sub-national government remained heavily reliant on the national government.¹³

In Colombia, the movement for political decentralization came on the heels of a government that was facing public discontent over its mismanagement of basic public services, such as health, electricity, education, water, and sewage. Civil society, through mass social movements, rose up to demonstrate against what they saw as the unequal distribution in resources between rich and poor regions. Contentious politics, paralyzing

strikes, and public outcry necessitated a response, and in 1986 President Betancur passed a “constitutional amendment for the popular election of mayors.”¹⁴ Subsequently, the pro-decentralization “first cohort of mayors” created a Columbian Federation of Municipalities in 1988, an institution whose lobbying efforts were instrumental in the movement towards fiscal decentralization.¹⁵ Although there were elements in the political elite who sought to derail or to reverse the progress of decentralization, the given base of support ensured that fiscal decentralization, accomplished by the federal transfer to the municipalities, finally brought administrative decentralization.

The process of decentralization in Argentina was facilitated by a disproportionately top-down approach. Administrative decentralization was initiated first with disastrous results for the sub-

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national authorities. Given their lack of fiscal flexibility and weak position vis-à-vis the national executive, local governments were ill-equipped to handle their new responsibilities and resorted to asking for money in order to effectively govern. Surprisingly, after the return to democracy, sub-national actors focused attention on increasing fiscal revenues instead of collectively pushing for political decentralization. The President, however, controlled the timing of this decision and only proceeded with this stage in decentralization when he was politically vulnerable.¹⁶ Fiscal decentralization was eventually implemented with the passage of President Alfonsín’s revenue sharing scheme. However, this event imposed additional administrative duties upon the sub-national governments in 1991

and again in 1992, when the government devolved even more unfunded administrative responsibilities to the local governments. Political decentralization was the final step in the decentralization process and was in no sense comprehensive.¹⁷

As illustrated, the sequence of decentralization not only impacts the intergovernmental balance of power but also has a marked effect on the deepening of decentralization itself. In the Colombian case, the process of decentralization was initiated from the grass roots, which forced the President to initiate some form of decentralization. Because of his weak political position, he could not opt for his preferred choice of administrative decentralization. Civil society recognized that having a say in the governance of their localities required politicians beholden to their interests. This necessitated the replacement of a system wherein mayors were appointed by one in which they are elected. Thus, the active engagement of civil society ensured that sub-national interests predominated in the decision-making process and shaped the direction of decentralization.

This stands in contrast to the Argentina case study where the central government was able to dictate the terms of decentralization. The disproportionately top-down approach of decision-making had negative ramifications for the durability of decentralization. The lack of pluralism ensured that the deepening of decentralization would come only when it aligned with the interests of the national government. Furthermore, because administrative decentralization came first, sub-national politicians focused on getting resources rather than working collectively to achieve decentralization. In this case, the political base of support for decentralization was bereft. The sub-national governments were actually in a weaker position as a result of decentralization because they became more heavily reliant on the central government. Notably, the efficiency that would have come

with administrative decentralization could not evolve, because it was implemented without the resources needed to effectively orchestrate the public policy necessary to match the needs of citizens. Since political actors were more reliant on the state, they were less likely to implement policies that were not supported by the federal government, even if they complemented the conditions of the people on the ground. Ironically, despite the fact that decentralization had taken place when there was a sequence of A>F>P, the power of the sub-national government was reduced and the prospects of the continued progress for decentralization weakened. This called into question the likelihood that the sub-national governments could act as effective veto players or even help in the balance of power vis-à-vis the federal government.

Incentives of Political Actors

For politicians, the decision-making process is wracked with politically motivated calculations that must suit their political interests. Decentralization can only be sustained if it matches the interests of the relevant parties.¹⁸ Politicians want to decentralize for a number of different reasons, to shore up the support of disaffected segments of society, to deal with structural issues such as the efficient management of welfare, to enhance the political or economic stability of the state, or simply to deal with their political imperatives.¹⁹ Nonetheless, these reasons matter little absent the political incentives of politicians to sustain this policy.

In Argentina, decentralization was pushed through as a result of a divided government and re-centralized as a result of a unified government.²⁰ Faced with a lower chamber led by the Peronist party, President Alfonsín found it difficult to challenge the automatic revenue sharing scheme that gave more fiscal autonomy to local governments. However, in 1987 when the Peronist party held both the executive and the legislative branches, President Menem saw the revenue

sharing scheme as an impediment to his re-election as well as a tool for strengthening his political power over the governors.²¹ Menem negotiated a series of fiscal pacts with the provinces, increasing the role of the federal government and lessening the fiscal autonomy of the provinces.²² Additionally, the federal government gave aid to those provinces whose governors initially supported the fiscal pacts.

In the Philippines, the political disincentives for the legislators to decentralize plagued the stability of decentralization. Decentralization came only after the return to democracy following the tumultuous period of the Marcos regime.²³ President Aquino was not seeking a 2nd term and saw the decentralization policy as a needed reform measure and as a way to deepen democracy.²⁴ The political interests of the legislators, who saw the autonomy of the sub-national politicians as a threat to their own political power, opposed the decentralization effort. Sub-national actors gained leverage from decentralization, and formed their own political power base to challenge the interests of the legislators. Furthermore, the national legislators feared the electoral challenge of an autonomous sub-national power base and consequently pushed to re-centralize.²⁵

These two case studies illustrate the relevance of political incentives of politicians when it comes to decentralization policy. Under a united government in Argentina, the newly elected President saw the recent fiscal decentralization as a burden to his re-election scheme. What progressed was a series of pacts that not only brought administrative burden and complexity to the tax system, but also established a pseudo-system of automatic tax revenue benefiting provinces that supported the President. Although decentralization was able to hurdle a reluctant national legislature in the Philippines, this same political base challenged its survival. Political actors will only decentralize when they have the political incentives to do so.

Institutional Designs

Institutional design can also drive the direction and robustness of decentralization policies. Decentralization meets institutional roadblocks that thwart its implementation. The institutional design can point to the rules and procedures that characterize the nature of the decentralization regime, though it can also speak to the norms and principles that are at play in the system overall. Generally, when the rules and procedures in place are coherent, and adequately mirror the goals of decentralization, decentralization is successful. When there is an incoherent policy framework, however, then decentralization efforts tend to fail.

Election propaganda for Former President of Argentina Raul Alfonsin, who promoted fiscal decentralization.

In Indonesia, the lack of success seen in the decentralization effort can in part be attributed to the disjointed policy framework. The decentralization policy instituted in Indonesia put power in districts and municipalities as opposed to the provinces.²⁶ Law 22 clearly delineates the power relationship between the federal government and the local governments, but a clause

giving the central government the right to “assume other authorities” makes the full power dynamic between these two spheres ambiguous.²⁷ The need to decentralize at the district level stemmed from the national government’s fear of giving power to the state level, since district level governments were accustomed to simply carrying out orders from the central government. Administrative decentralization efforts empowered district level governments who lacked the expertise found at the provincial level to adapt to this decentralization scheme.²⁸ Although the revenue sharing scheme gave districts some amount of fiscal autonomy, the central government still had the right to collect income and corporate taxes.²⁹ Finally, the electoral design in Indonesia does not provide for direct elections of mayors and governors, who are instead appointed by members of the local parliament.³⁰ In a system based on proportional representation without party membership, citizens may not know who represents them in parliament.

In Pakistan the situation is much the same. Although fiscal and administrative decentralization occurred at the district level, the institutional policy design enabled provincial authorities to wield influence over the local administration and finance.³¹ The political and electoral rules made it such that there were no direct elections of local level politicians. Since an electoral college of “union counselors” elects the district nazim, this makes him more likely to want to respond to the needs of the constituents of the unions rather than the general public.³² Since there are a large number of union counselors who are running as candidates, they can win election with a very small voter share.³³ Because of this, politicians have less incentive to be accountable. Finally, it must be noted that since political parties in Pakistan are less likely to adopt policy platforms, it becomes more likely that voters will judge politicians based on the types of programmatic benefits they can provide to their constituents, creating

a huge incumbency advantage.

In both of these case studies it is apparent that the institutional design upon which decentralization was implemented mattered. In the Indonesian case study the ambiguous wording of the law — which gives the central government the right to assume “all other authorities” — allowed the central government to devolve more control to local governments.³⁴ The district level decentralization scheme can also be called into question, given the unpreparedness of the districts to handle the tasks once administrative decentralization occurred. Rather than increasing administrative efficiency and improving on the provision of public goods, districts were left unprepared for the responsibilities of decentralization and could not effectively administer the provision of public goods. Furthermore, the fact that income and corporate taxes were kept by the federal government provided a disincentive for districts to compete with one another in order to attract business and income.³⁵ This had negative consequences, since competition between local governments typically leads to better policy ideas and implementation that would only work in favor of local populations.³⁶ Instead, local politicians were left to seek revenue from natural resources, which led to less accountability of funds and more avenues for corruption. This was evidenced by the fact that although local governments raised more revenue in Indonesia, these funds were not necessarily used for better public service.³⁷ If decentralization is supposed to bring the government closer to the people, the indirect election of district politicians makes it less likely that this outcome will emerge.

The results of decentralization in Pakistan show a similar trend. The form of

“partial decentralization” administered at the local level still allowed the provincial authorities the ability to wield power over district affairs, without giving the district-level decision makers authority over management of vital district functions.³⁸ Furthermore, indirect election of district nazims made the decision making process less transparent at the local level. Rather than trying to curry the votes of the district as a whole, the district nazim is more inclined to seek the support of union votes, which represent a much smaller swath of the population. This makes it more likely that politicians will seek to provide a more targeted selection of programmatic goods rather than providing goods for the general public. Indirect elections at the district level, and political parties which lack policy platforms, make it more likely that politicians will adopt clientelistic practices. The issueless nature of politics in this example gives voters less of an opportunity to hold politicians accountable.

Conclusion

Decentralization does not always live up to the expectations of its advocates. As we have seen, politicians support decentralization if it suits their interests. However, these same initiators of decentralization can also work to derail the deepening of decentralization if it does not work in their political interest. In theory, decentralization should be a win-win proposition for all involved actors; however, in order for decentralization to succeed, the right mixture of political incentives, sequencing, and political design must be at work to facilitate this reality.