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**Vertical and Horizontal Decentralization and Ethnic Diversity in
Sub-Saharan Africa**

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Vertical and Horizontal Decentralization

Gustav Ranis

Abstract

Vertical decentralization, either at the deconcentration, delegation or, more rarely, the devolution level, has been instituted in most countries of Sub-Saharan Africa. It usually has the effect of increasing the quantity as well as the quality, in terms of health and education, of public goods. More neglected in the literature is the issue of horizontal decentralization, shifting the decision-making power from the central ministry of finance to the ministries of education and health, as well as strengthening the legislative and judicial branches of government. We examine the relationship between horizontal decentralization with its important ethnic dimension and vertical decentralization. Local governments are accountable to the center under vertical and to democratic forces and civil society under horizontal decentralization. Smaller local units are more likely to be more homogeneous ethnically, leading to a larger quantity and higher quality of public goods.

Key Words: Decentralization, ethnicity, development, Sub-Saharan Africa

JEL Codes: O11, O17, O18, O55

Vertical and Horizontal Decentralization and Ethnic Diversity in Sub-Saharan Africa

Gustav Ranis^{*}

First of all, we distinguish between vertical and horizontal decentralization. Vertical, whether via deconcentration, delegation, or devolution, represents some relinquishing of control over public resources and decision-making by the central government and extending both towards lower levels of government (Rondinelli, McCullough, & Johnson, 1989). In most cases, it represents some type of delegation, with resources sent down to local governments, usually conditionally, sometimes unconditionally. It infrequently comes close to an actual devolution of power. Privatization is the last, improbable, step in vertical decentralization.

Horizontal decentralization deals with the shift of decision-making power from the finance ministry of the executive branch towards the line ministries concerned with human development-oriented fields, including health and education. It also, significantly, entails a shift from the executive branch of government towards the legislative and judicial branches, often an aspect of democratization. Both types of decentralization need to be examined in the context of the sub-Saharan reality which includes considerable ethnic diversity. In vertical decentralization, the central government is the principal, the local government is the agent. In horizontal decentralization, the community is the principal, the local government is the agent.

The arguments pro and con vertical decentralization are fairly well known. The main pro argument is that getting close to the people entails better information about local conditions, enhanced efficiency and lower transactions costs, the latter depending on the number of local levels of government. It gives local governments, often administratively weak at the start, a chance to learn by doing, provides for greater flexibility and scope for innovation, with experimental successes replicable (as in China). The need for some delegation or even

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devolution becomes more urgent as the economy becomes more complex and more difficult for central authorities to manage efficiently. A second main pro argument is that local people may be more willing to raise given local taxes, or even introduce new ones, when they see the direct benefits of expenditures. The argument is also made that accountability, upward and downward, is enhanced, especially in multi-ethnic contexts. In other words, the local gold fish bowl accountability and transparency context tends to reduce corruption levels. More locally available information reduces all but petty corruption, while at the center, accountability is diffused and grand theft corruption potential is enhanced. On the critical issue of achieving agreement on the quantity and quality of public goods, vertical decentralization should also be helpful, especially when it is associated with enhanced ethnic homogeneity. Finally, and critical to the argument, vertical decentralization enhances the chances for horizontal decentralization and democratization at both the central and, more importantly, the local level, i.e. the ability of local people to voice their preferences in relation to local government. It is also important in moving towards a judiciary more independent of the executive branch at every level.

The arguments against vertical decentralization are equally well known. The most formidable is that human capacity at local government levels is too weak and too subject to the power of local elites, i.e. corruption may exceed that at the center, especially when there are many layers of local government and many hands out (Sub-Saharan Africa has 4.1 tiers on average). It is even claimed that by diminishing the power of the unifying center, vertical decentralization enhances the overall influence of ethnic heterogeneity in the body politic. Moreover there is evidence that the more layers of government the greater the tendency for resources to be applied to increasing the civil service and enhancing its salaries. This is one reason why the Indonesian fast track decentralization of recent years had to be partially reassessed and dialed back. Especially if natural resources are unequally distributed across a country, vertical decentralization can lead to more dissatisfaction and unrest since it is up to the center to provide for equity across regions. Equity between regions is a concern of the center.

Equity within regions is a concern of local government. More homogeneous local units produce more public goods. Large units are likely to be more heterogeneous and produce less public goods. Large countries are likely to have more corruption. Overall vertical decentralization tends to increase total expenditures on public goods and the share of human development-oriented public goods but increases inequality across regions. Indeed, there can be little doubt that vertical decentralization can represent a potential threat to national unity, underlining the need to retain not only macro stability functions at the center but also the need to redistribute resources across regions depending, say, on differential poverty levels.

We must also recognize that public goods of a regional or national character, exhibiting economies of scale, must be retained at higher levels of government, especially in the case of large countries. Country size and the extent of ethnic diversity clearly matter. While small homogeneous units of government favor agreement on public goods, economies of scale may have to be sacrificed. Ethnic homogeneity at the local level may help agreement and enhance the volume and quality of public goods but may reduce national unity. A unitary state with few decentralized levels and few regional veto powers seems to have the edge. For the advantages of vertical decentralization to be fully realized, a thoroughgoing devolution of authority quite clearly would be optimal. A unified government career service, including pay, promotions and transfers would seem an essential accompaniment but is seldom in evidence.

Most decentralization efforts instead stop at the deconcentration or delegation variety, with local administrative and revenue raising capacity seen as inadequate by the center and reduced equity across provinces seen as a threat. Clearly the center must retain primary responsibility for horizontal equity as well as macro stabilization, defense and major economic infrastructure. But there are always four questions: Who is assigned what tasks and attending expenditures? Who levies which taxes? How are gaps financed – avoiding borrowing and moral hazards and macro instability? How are horizontal imbalances addressed? The central government assesses progressive, mobile taxes such as the income tax. Local governments levy

user charges, property taxes and other less mobile taxes. Regional projects, national public goods, economies of scale and equity across provinces indicate where the center must prevail. Other expenditures under vertical decentralization redound to local bodies. This means dependence on the center for fiscal resources. It follows that the center must continue to exercise control over the most important tax sources. Indeed, in developing countries, central government expenditures comprise 90% of the total, compared to 65% in developed countries. As an economy develops and its complexity increases, the influence of the colonial center-oriented heritage is diminished. Consequently the predominance of government grants to local bodies, creating perverse incentives, gradually diminishes and local taxes are enhanced. But local taxes still tend to be limited, constrained by the center and administratively deficient in terms of tax evasion, the lack of effective controls and sanctions. It also follows that transfers from above, conditional or unconditional, continue to play a critical role, administered, if possible, in a way which does not favor wealthier areas or lead to a disincentive to raise local taxes. Central grants need to be predictable and transparent, not subject to annual bargaining. In some cases local government can borrow domestically or internationally but need central government approval to obey macro-economic policy constraints and avoid moral hazard issues. Municipal development funds may provide a good alternative to letting local government borrow at home or abroad.

Relevant data to be looked at to measure the level of vertical decentralization include:

- 1) Expenditure decentralization ratios: percentage of government expenditure (not including defense and debt services) spent by local government.
- 2) Revenue decentralization ratios: local government revenue as a percentage of total government revenue.
- 3) Financial autonomy ratios: locally raised revenue over total local expenditures.

But the bottom line is exploring the relationship between horizontal and vertical decentralization. Decentralization is a political as well as technical issue, part of the transition from authoritarian to democratic rule. Indeed, it is my contention that successful vertical

decentralization requires an accompanying political empowerment or democratization effort. Of course hybrids are possible, i.e. horizontal decentralization of the activity but some central inputs retained to support technical aspects and enhance overall efficiency. Since local government objectives may differ from the center's in an authoritarian state, delegation rather than devolution is likely since there exists no counter-power to the center. But in a democratic system, popular pressure can move the system towards genuine devolution, even as inevitable conflicts remain. More homogeneous local units produce more public goods. Larger units are likely to be more heterogeneous and produce less public goods. Much depends on the extent to which people's preferences are conveyed to decision-makers at all levels of government. And the extent of diversity is critical to this issue. Power sharing at both the center and lower levels is likely to improve relationships among heterogeneous groups and reduce the likelihood of veto-playing and conflict. The quality and quantity of public goods at the local level are bound to be affected by the extent of diversity. More heterogeneous units are likely to generate less revenue and less public goods than more homogeneous units at the local level. It follows that the extent of influence on public sector decision-making depends partly on the homogeneity of local units which in turn depends partly on their size – the larger are more likely to be heterogeneous - and partly on the extent of democratic freedom of action of the local body politic or civil society. Small homogeneous units are more likely to escape capture by minority vested interests but have less impact on agreed collective actions at a higher level. Large heterogeneous units are more likely to succumb to “free riding” and corruption problems. Power sharing at the center among ethnic groups then becomes critical, especially in small unitary governments. In large countries, federalism becomes the frequent choice enhancing vertical decentralization patterns but encountering more tiers and more corruption. Smaller local units with natural resources can lead to competition among them and reduce efficiency while larger sub-units can bargain for more central support and weaken macro policy.

Democracy, one of the ingredients of horizontal decentralization, appears to be more in

evidence at higher levels of income, though Przeworski sees no relationship between growth and democracy at any level. Indeed at low levels of income democracy may be counter-productive. However, Collier and Alesina and LaFerrara find democracy generally helpful for growth in conditions of ethnic diversity (2000). With one third of Sub-Saharan Africa's population living in economies dominated by natural resources, the resulting rents make patronage politics dominant in determining public goods and thus serve to undermine democracy. Local participation is more likely under democratic pluralist national regimes. When the nation state is of the one-party authoritarian variety vertical decentralization is likely to be of the deconcentration or delegation variety, leaving little room for civil society participation. At the center, even in cases of substantial vertical decentralization, power usually continues to reside in the hands of the dominant ethnic group while horizontal decentralization can provide a challenge at the local level. Vertical decentralization needs to be strengthened by political movements, i.e. organized civil society a la the Indian Panchayati Raj system. Thus, national unity is preserved but, with vertical decentralization usually leading to the creation of new districts, altering relations among ethnic groups, local competitive leadership conflicts are encouraged. Vertical decentralization should foster democracy but not if local governments are captured by corrupt elites. Here is where horizontal decentralization, empowering civil society, comes into play.

One important dimension of the extent of local democracy is whether heads of local legislative bodies are directly elected, indirectly elected or appointed from above. Moreover, what are their functions relative to local government and who controls the technical cadres, the center, local government or local legislative bodies? Small, homogeneous groups create more social capital, reduce free-riding and competition. Vertical decentralization may create ethnically heterogeneous units of government likely to enhance local veto playing, free-riding efforts and corruption. Some of the literature has found, however, that vertical decentralization, without reference to diversity, tends to increase the total expenditure on public goods as well as its human development-oriented share, if at the aforementioned expense of increased inequality

across provinces or regions. With reference to diversity, more homogeneous local units spend more on such public goods. In summary, the quality and quantity of public goods results from the interaction between the public sector at various levels of vertical decentralization and the legislative branch and civil society at various levels of horizontal decentralization and the extent to which this interaction reflects the wishes of ethnic majorities while protecting the interests of ethnic minorities (Laitin & Fearon, 2003). One indicator of the strength of horizontal decentralization is the percentage of the central budget allocated to the education and health ministries, another the existence of multi-party legislative branches at the center and locally, a third the prevalence and strength of NGO's and other dimensions of civil society. Democracy can be helpful for both upward and downward accountability.

Turning to some real world experiences, Kenya, Uganda and Indonesia, we can dispose of Kenya rather quickly (Barkan, 2004). Although the recently adopted constitution of 2010 calls for decentralization, its full implementation is still awaited and the record to date, vertical or horizontal, has been rather abysmal, focused on deconcentration. Local governments finance only 4% of their expenditures, which total 29% of GDP, most drawn from the proceeds of a local property tax; most of the grants from above are conditional, only 8% discretionary. Local tax powers are minimal and local expenditures remain at about 4% of total expenditures as shown in Table 1.

| Table 1: Kenya's decentralization statistics | | | | | | |
|--|--------------------------|--------------|--------------|--------------|--------------|--------------|
| Indicator | Formula | 02/03 | 03/04 | 04/05 | 05/06 | 06/07 |
| Expenditure decentralization ratio | $(lg\ exp)/(total\ exp)$ | | 0.04 | 0.05 | 0.04 | 0.05 |
| Revenue decentralization ratio | $(lg\ tax)/(total\ rev)$ | 0.17 | 0.38 | 0.16 | 0.28 | 0.34 |
| Financial autonomy ratio | $(lg\ tax)/(lg\ exp)$ | | 0.94 | 0.64 | 0.67 | 0.61 |
| Notes: Abbreviations in the formula indicate the following. 1) lg exp: local government expenditure; 2) total exp: total government expenditure; 3) lg tax: local government tax; 4) total rev: total government revenue | | | | | | |
| Source: Kenya Human Rights Commission and Social and Public Accountability Network (2010), Institute of Economic Affairs (2009), and World Bank World Development Indicators (2012) | | | | | | |

Moreover, Kenya's local level government units – 47 county governments – are largely coterminous with identifiable ethnic concentrations. Kenya's two-tier government structure – national and county – is not particularly conducive in encouraging coordination among county governments. While the center insists on regional balance, history clearly indicates shifting ethnic preferences with changing presidencies, e.g. from Kenyatta to Moi. As Joel Barkan puts it, “ethnic godfathers close to the center of power were pushing for projects in their home areas (Barkan, 2004).” As the country with 9th highest cultural fractionalization index within the region, Kenya's ethnic diversity seems to complicate the issue of income equity across regions (Fearon, 2003).¹ Vertical decentralization based on ethnic preferences received little support from horizontal decentralization. The harambee movement, sometimes cited as a contrary example, does not really qualify. Applications to start local self-help projects had to be submitted to the District Development Committee with the disbursement of funds requiring the approval of the President's office. Not surprisingly, scarce qualified personnel prefer to work at the center. Table 2 shows that the percentages of public expenditures on education and health out of total public expenditure have been in a decreasing trend since 2000, implying regression in the process of horizontal decentralization.

| Table 2: Kenya's public expenditures on education and health (% of government expenditure) | | | | | | | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Sector | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| Education | 25.8 | 22.59 | | 22.11 | 29.19 | 17.86 | | | | | 17.21 |
| Health | 9.13 | 7.32 | 7.21 | 6.99 | 7.13 | 7.58 | 7.75 | 7.69 | 6.28 | 7.31 | 7.31 |
| Total | 34.9 | 29.9 | | 29.1 | 36.3 | 25.4 | | | | | 24.5 |
| Source: World Bank World Development Indicators (2012) | | | | | | | | | | | |

Kenya's future decentralization heavily depends on successful implementation of the 2010 constitution, which attempts to shift the mode of decentralization to devolution as opposed to deconcentration. Specifically, the new constitution aims to address most of the challenges aforementioned by implementing the following measures: 1) equitable sharing of national revenue among national government county governments – allocation of national revenue to

¹ Kenya's ethnic fractionalization score is 0.852 and cultural fractionalization score is 0.601.

county governments must not be less than 15%; 2) empowering of county assemblies to exercise oversight of executive units and approve plans and policies for management of county's resources and improvement of its public services and infrastructure; 3) and empowering of county governments to mobilize independent revenues by levying taxes and borrowing. Nevertheless, the civil dimension of Kenya's decentralization efforts will require further improvement, as the only available means of political participation comes from civil elections, and legal and administrative environment for community participation in monitoring local authority is still lacking (United Nations - Habitat, 2002).

Turning to the two other cases under scrutiny, Uganda and Indonesia, we can observe some instructive contrasts. Uganda represents a gradual effort towards both vertical and horizontal decentralization (Green, 2008). In 1993, the first 13 districts were decentralized and local councils given the right to retain a proportion of locally generated resources. As a consequence, local tax collections have increased substantially. Five District Council levels were created, ranging from fairly central (LC5) to grass roots (LC1) levels, with their relationship to the central ministries' administrative hierarchies spelled out. Uganda currently has 4 administrative regions, 111 districts, and one city (Kampala). Uganda also has the 5th highest cultural fractionalization index, which is even higher than Kenya's (Fearon, 2003).² Inter-ethnic conflicts and tension that began before the colonial rule persist in Uganda and no one ethnicity constitutes a majority. Similar to Kenya's case, Uganda's leaders also seem to pursue policies favoring one ethnicity over others. Furthermore, the fact that most of political leaders come from the Buganda region exacerbates ethnic tensions and weakens national unity.

The LC5 or district level retains most of the resources sent down and has most of the decision making power. In fact, LC1 and LC2 are basically administrative councils and executive committees at these levels focus on settling civil disputes. LC3, LC4, and LC5 which are more concerned with policy-making are rather remote from citizens' oversight. District

² Uganda's ethnic fractionalization score is 0.93 and cultural fractionalization score is 0.647.

chairmen have very powerful contested positions as the political heads of the district. District chairmen nominate the district executive committee secretaries and coordinate and monitor government functions between the district and the government. Councils at respective levels propose policies which have to be approved at the District level and implemented by civil service staff. All District Council Councilors are now directly elected and persons with disabilities, the youth and women councilors form one third of the council, an example of horizontal decentralization. As Table 3 indicates, about 30% of revenues are locally generated, with the central government providing a mixture of declining conditional (still 85% of the total), increasing unconditional, and relatively small equalization (using a poverty formula) grants. The local expenditure ratio has been relatively stable at about 30% and financial autonomy is still very limited, at no more than 10%.

Technical staff were de-linked from their parent ministries and placed under the authority of local governments in 1994, while the Central Ministry of local government retains overall supervisory responsibility. Chief Administrative Officer (CAO), an employee of the district council, heads district civil servants and is the accounting officer who is responsible for implementation of council decisions and overseeing performance of local government officials.

| Table 3: Uganda's decentralization statistics | | | | | | | |
|---|--------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Indicator | Formula | 02/03 | 03/04 | 04/05 | 05/06 | 06/07 | 07/08 |
| Expenditure decentralization ratio | $(lg\ exp)/(total\ exp)$ | | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Revenue decentralization ratio | $(lg\ tax)/(total\ rev)$ | | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Financial autonomy ratio | $(lg\ tax)/(lg\ exp)$ | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 |
| Notes: Abbreviations in the formula indicate the following. 1) lg exp: local government expenditure; 2) total exp: total government expenditure; 3) lg tax: local government tax; 4) total rev: total government revenue. | | | | | | | |
| Source: Uganda Ministry of Finance - Planning and Economic Development and World Bank World Development Indicators (2012) | | | | | | | |

The reality is that democracy prevails at the LCI level while there is relatively little contact between the Councillors and the population at higher levels of government. Although citizens are allowed to attend committee sessions at LC3, LC4, and LC5 levels where most

policy-making decisions are made, many are disinterested. Decentralization in Uganda has largely been a top-down approach and participation is seen as a government obligation (Nsibambi, 1998). Moreover, there is a tendency for decision-makers at the LC3 to LC5 levels to select visible and relatively short-term activities while neglecting longer-term projects, including maintenance. Decentralization has nevertheless registered serious gains. Table 4 indicates that while the percentage of public expenditure on health out of total public expenditure has moderately declined, the percentage for health expenditure has significantly increased over the recent years.

| Table 4: Uganda's public expenditures on education and health (% of government expenditure) | | | | | | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Sector | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| Education | | | | | 18.29 | | | | 18.85 | 15.04 | |
| Health | 7.26 | 9.69 | 9.69 | 9.95 | 9.41 | 10.38 | 10.18 | 9.78 | 10.58 | 13.62 | 12.11 |
| Total | | | | | 27.70 | | | | 29.43 | 28.66 | |
| Source: World Bank World Development Indicators (2012) | | | | | | | | | | | |

Furthermore, in health service delivery, standardized health service provisions have been replaced by the ability of decentralized units to administer projects flexibly according to differing local situations. Co-operative and preventive services have been integrated under District Medical Offices and at lower levels where hospitals are actually located. To cite another example, in education, the population objected to the overcrowding of schools as a consequence of the Universal Primary Education Law, as well as the suspicion that the extra payments demanded ended up in teacher pockets. Corrective action was taken.

There can be little doubt that Uganda still suffers from a lack of full democracy and from an insufficiently strong linkage between local democracy and local government which itself admittedly still lacks adequate capacity. Civil organizations have little influence on local politics and international NGOs suffer from a lack of local contribution. Furthermore, civil organizations often fail to secure support from the grassroots level (Nsibambi, 1998). Teacher absenteeism is still at 27%, that of health workers at 37%. But financial grants from the center, increasingly unconditional, now comprise an unusually high 80% of total local government

expenditures, and political action increasingly disciplines government at each level, especially at LC3 levels and below, thanks to a number of NGOs, civil organizations, and donors who supplement government effort in enforcing ethical behavior (United Nations, 2004). A key policy objective of Uganda's decentralization policy has been defined as "enforcement of local populations via democratization."

In sharp contrast to Uganda, Indonesia, in 1998 opted for a "big bang" rapid vertical decentralization approach, but with a lagging horizontal dimension (Diprose, 2009). It should be noted that with thousands of islands and hundreds of ethnicities, some efforts at vertical decentralization were inevitable; Indonesia has the 6th highest cultural fractionalization index in the region (Fearon, 2003).³ Currently, it has 33 provinces, 349 regencies, 91 cities, 5,263 districts, 7,124 sub-districts, and 62,806 villages (Alicias, 2007). Provinces and regencies/cities have local governments. In 1998, 2.1 million civil servants were transferred to the five levels of local government of which the kabupaten, kecamatan and the village were the critical elements, with the kabupaten designed as plan formulators and the kecamatan as implementers, and the desa or villages requiring kabupaten approval for incorporation in the design of public goods. Provincial and district legislatures (DPRD I and DPRD II) were granted the full authority to elect and monitor the heads of government, which gave regional communities sovereignty over their political affairs. DPRDs also had the authority to initiate, legislate, and amend regulations as well as the authority to modify government structures and budgets. Provinces were kept relatively weak, seen as a threat to national unity. While civil servants were officially transferred, their wages, standards and promotions continued to be set by the center, indicating a de jure rather than de facto decentralization effort in this important respect. The fact that local government leadership was elected by DPRDs' secret ballot also reduced public accountability and increased vulnerabilities to bribes and other forms of corruption. Moreover, although revenue decentralization ratio has slightly increased as shown in Table 5, they were still

³ Indonesia's ethnic fractionalization score is 0.766 and cultural fractionalization score is 0.522.

restricted to no more than 10% of total national revenues and local governments were not permitted to borrow domestically or internationally to avoid moral hazard issues. Some advances on the horizontal decentralization front were instituted, e.g. the heads of the powerful kabupaten were now to be elected, and local preferences were to be articulated with the help of newly created school and health committees. However an absentee rate of 20% for teachers and 40% for health workers persisted.

| Table 5: Indonesia's decentralization statistics | | | | | | | |
|---|--------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Indicator | Formula | 99/00 | 00/01 | 01/02 | 02/03 | 03/04 | 04/05 |
| Expenditure decentralization ratio | $(lg\ exp)/(total\ exp)$ | 0.19 | 0.20 | 0.32 | 0.38 | 0.40 | 0.43 |
| Revenue decentralization ratio | $(lg\ tax)/(total\ rev)$ | 0.05 | 0.05 | 0.10 | 0.10 | 0.11 | 0.10 |
| Financial autonomy ratio | $(lg\ tax)/(lg\ exp)$ | 0.22 | 0.19 | 0.27 | 0.23 | 0.25 | 0.25 |
| Notes: Abbreviations in the formula indicate the following. 1) lg exp: local government expenditure; 2) total exp: total government expenditure; 3) lg tax: local government tax; 4) total rev: total government revenue. | | | | | | | |
| Source: IMF and World Bank Resident Mission (2000) for vertical decentralization indicators and World Bank World Development Indicators (2012) | | | | | | | |

In 2004, Indonesia took steps to review and curtail some of these “big bang” decentralization provisions. As a consequence of the fear of increased levels of corruption at local levels, taking the form of overstaffing and enhanced emoluments for local staff, the provinces’ powers were restored, with elections at local levels maintained. Moreover, some of the decentralization efforts that begun in 1998 were dialed back in a sense that central government once again resumed the power to supervise local governments. The new policy empowered local executive units by removing most of local legislatures’ authorities to appoint, approve, and monitor the executive. Heads of local government were also to be directly elected instead of through DPRD.

The virtual doubling of smaller kabupaten units plus migratory transfers enhanced levels of local ethnic homogeneity favoring agreement on the quality and quantity of public goods, with health and education allocations rising from 2% to 4% of GDP. Table 6 shows that recent public expenditures on health and education are about 20% of total public expenditures until 2005 and

significantly more since then, reaching as high as 34% in 2010. Planning proposals could continue to be made at the desa level but with the need for approval at higher kabupaten levels. At the same time, the fact that, after 2005, the heads of the province, the kabupaten and the kecamatan, previously appointed, were now to be directly elected is an indication of enhanced democratization. NGOs, civil organizations, and citizens' forums called the forum warga are quite active in exercising public accountability and serve as channels of democracy in both central and regional politics (Aspinall & Fealy, 2003). While the center was previously in charge of conciliating among different ethnic groups' varying public goods preferences, this could now be settled at lower levels – and was assisted by the greater local ethnic homogeneity resulting from the increase in local bodies. This combination of vertical and horizontal decentralization was associated with an increase in education expenditures from 11.5% of total government expenditures in 2001 to 17.9% in 2008 and to 26% and to more modest increases in health care, as shown in Table 6. On the negative side of the ledger, the allocation of the unrestricted grants from the center, partly influenced by different natural resource endowments across provinces, tends to increase horizontal inequalities bound to provoke inter-ethnic friction. Their relatively large size also has negatively affected local tax collections. Furthermore, the competence of local public institutions in delivering public goods such as potable water, electricity, environment, transportation, and health services is still being questioned, as there is no mechanism for public complaints on public service delivery and the public service sector is still not transparent enough (Alicias, 2007). While vertical decentralization has regressed in a sense that local governments' sovereignties were reduced, important progress on the horizontal front has been made such as increased emphasis on health, education, and other public goods and enhanced democracy by incorporating civil participation in local and central politics.

| Table 6: Indonesia's public expenditures on education and health (% of government expenditure) | | | | | | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Sector | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| Education | 11.45 | 14.28 | 15.98 | 14.17 | 14.87 | 17.22 | 18.70 | 17.87 | | 26.01 |
| Health | 4.71 | 4.82 | 5.15 | 5.02 | 5.43 | 5.18 | 6.49 | 5.73 | 6.84 | 7.75 |
| Total | 16.17 | 19.09 | 21.13 | 19.19 | 20.31 | 22.40 | 25.19 | 23.60 | | 33.76 |
| Source: World Bank World Development Indicators (2012) | | | | | | | | | | |

Discussion

It seems clear that, especially in the case of large countries, the increased complexity accompanying economic growth calls for vertical decentralization at least at the deconcentration or delegation level. Such decentralization generally enhances the quality of public goods as well as the quality in terms of its human development components. This requires increased support of local government by central grants, mostly conditional, some unconditional, hopefully without unduly discouraging local tax efforts. The center needs to retain control over macro-economic issues, central and regional projects, as well as the concern with enhancing equity across decentralized units.

It is necessary to examine the extent of horizontal decentralization with its critical ethnic dimension as a complement to the vertical variety. If local governments are accountable to the center under vertical decentralization, they are accountable to democratic forces and civil society under horizontal decentralization. The question is to what extent these democratic forces exert themselves at different levels of the decentralized hierarchy. The extent to which local civil servants are elected or appointed clearly affects the extent to which they pay attention to the preferences for public goods priorities expressed by political parties or civil society.

Finally, ethnicity plays a large role in the definition and effectiveness of horizontal decentralization. The creation of large local units favors ethnic heterogeneity and leads to lower levels of public goods as well as lower quality. Smaller local units are likely to be more homogeneous ethnically, leading to the production of more public goods and those of better quality. The creation of many additional local units in the course of vertical decentralization enhances the chances of increased homogeneity. With respect to corruption, it is generally

acknowledged that large-scale corruption at the center is likely to dwarf petty corruption locally, especially if horizontal decentralization has been mobilized. On the other hand, the creation of too many layers of local government, creating higher transaction costs and greater opportunities for petty corruption needs to be avoided.

In short, successful vertical decentralization needs to be accompanied by horizontal decentralization which provides guidance to decision-makers at all levels. A unitary state with relatively few decentralized levels and an active democratic civil society would seem to yield the best overall outcome.

Over time, the role of local taxes should be enhanced and the role of central grants diminished as has been the pattern in the more developed countries. Gradually, mobile taxes should be made available to local governments. To maintain monetary stability local governments should not be permitted to borrow, either domestically or abroad. If they are to borrow from the market it should be as an accompaniment of a reduction of the traditional grants from the center.

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