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DECENTRALIZATION: TOWARD A REVITALIZED STRATEGY FOR RURAL DEVELOPMENT

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Despite recognition of the need for special strategies to address the widespread incidence of rural poverty in developing countries, initiatives aimed at bringing about a transformation of the rural standard of living have not had a consistent impact on reducing poverty. The failure of the most recent of these interventions—integrated rural development—has left a policy vacuum as donors and countries struggle to find new ways to reduce rural poverty. Recent initiatives designed to put in place decentralized mechanisms for rural development offer possibilities for building on the essential principles of integrated rural development while avoiding problems associated with an over-centralization of functions and responsibilities. This paper examines the potential role for decentralization in designing improved rural development programs. Some of the recent efforts to implement programs of decentralized rural development are described and analyzed. The paper concludes that although decentralization initiatives have a long history, much more needs to be understood with respect to the various components of decentralization if sound advice is to be given to policy-makers. A conceptual model is suggested that incorporates the essential elements of decentralization processes and relates them to rural development outcomes.

1. Introduction

In the post-war period, concern over the high level of rural poverty led donor agencies to develop specific interventions aimed at rural areas. Ruttan (1984) gives a history of these initiatives, the most recent of which was the integrated rural development model. Development agencies attempted to target the rural poor by providing a detailed, multi-sectoral package for rural development. However, poor project performance and the failure to bring about a sustained improvement in the living standards of rural people led to the abandonment of the "blueprint" approach to rural development.

With the failure of integrated rural development, the aid community has been left without a specific policy aimed at poor rural areas. Yet the need for one has never been greater. The failure of donor agencies to confront the central challenge of rural development—namely to tackle the complexity associated with providing a range of local goods and services that local people demand—is likely to render rural development initiatives ineffective. Greater decentralization of power and authority to lower-level governments and communities may provide one mechanism through which the complexity issue may be addressed (Parker, 1995).

2. Decentralization

In the second-half of the twentieth century, practically every country has experimented with some form of decentralization or local government reform with varying aims and outcomes (Cheema and Rondinelli, 1983 review decentralization initiatives of the 1970s; Campbell *et al.* 1991 review recent Latin American experience). The present level of interest in decentralization is pervasive, and Dillinger notes that "out of 75 developing and transitional countries with populations greater than 5 million, all but 12 claim to be embarked on some form of transfer of political power to local units of government" (1994: 8).

There have, however, been a number of recent developments that distinguish the present wave of decentralization from earlier attempts. First, democratic

institutions have been established and/or their role extended in many countries. In many countries in Latin America, and in western and southern Africa, military regimes have been replaced by elected civilian governments, and local government officials—mayors and council members—previously appointed are now directly elected.

Second, most of the countries presently involved in decentralization initiatives recognize the importance of providing financial resources to decentralized institutions to permit them to carry out their powers and responsibilities. Lack of adequate funding for lower-level institutions was the single most important factor that undermined many of the decentralization attempts of the 1970s (Cheema & Rondinelli, 1983).

Third, there is a growing realization that many types of institutions can actively participate in decentralization efforts and delivering services. There has been widespread privatization of services that can be delivered on a commercial basis. In addition, it has been recognized that NGOs and community-level organizations have a significant role to play in improving service delivery and for providing improved mechanisms for targeting disadvantaged groups.

These developments are likely to enlarge considerably the scope for overcoming some of the major factors that undermined earlier decentralization efforts, and to improve the prospects for sustaining decentralization initiatives once they have been established.

3. Defining Decentralization

The terminology most often used to discuss decentralization is that proposed by Rondinelli (1981), who distinguishes between four different categories of decentralization: (i) *deconcentration* is defined as a transfer of power to local administrative offices of the central government; (ii) *delegation* is the transfer of power to subnational governments and/or parastatals, or other government entities; (iii) *devolution* is the transfer of power to subnational political entities; and

(iv) *privatization* is the transfer of power to the private sector.

Deconcentration: The "training and visit" (T&V) system of agricultural extension provides a good example of deconcentration of responsibility. Developed during the 1960s, the T&V system aimed to address criticisms of existing extension arrangements. In India, the T&V system was introduced state by state, replacing the system of multipurpose village-level workers. Under the T&V system, staff deal only with extension work. They are organized into a unified extension service with a single line of command, but still under the state-level Ministry of Agriculture. Extension work tasks are precisely defined and systematic visits to target farmers are undertaken.

Feder & Slade (1986) estimated a rate of return of 15 percent on the incremental investments in T&V in India, indicating overall success as far as productive resources are concerned. Other studies, outlined in Hulme (1992), give more mixed results. Questions have been raised concerning the ability of the system to reflect adequately and respond to the needs of farmers. Poor research-extension linkages and a lack of performance-related incentives for extension workers have also undermined the system.

These criticisms suggest that deconcentration is an incomplete strategy for decentralization. Although the T&V system appears to provide improved mechanisms for transferring information to farmers, the farmers themselves do not possess overall decision-making power. Thus, although deconcentrating power to local administrative offices has improved the governmental organization of extension services, the impact of the T&V system in terms of being more responsive to farmers' needs has been more limited.

Delegation: Between 1975 and 1987, the Brazilian government implemented 22 integrated rural development projects in the ten states of Northeast Brazil. Both the Federal and State governments had responsibility for project organization for the two generations of projects: POLONORDESTE (Program of Integrated Development for the Northeast) and NRDP (Northeast Rural Development Program). To provide a focus on the northeastern projects and to enable some decentralization of decision-making the government established SUDENE (the Northeast Regional Development Agency) as a parastatal with overall responsibility for annual project planning, budgeting and M&E. Actual project implementation, however, was the responsibility of the States. There was a complex approval system for funding transfers and authorizing changes in project design that required the approval of SUDENE, the World Bank and sometimes the relevant ministry at the federal level.

Not being well-integrated into the pre-existing institutional structures in Brazil, SUDENE became at least irrelevant and more often a hindrance to project implementation. Although it was an institution designed to focus on a single important element of the government's development strategy, the hoped for benefits of decentralizing project administration to a parastatal were not realized. The recent reformulation of the northeast rural development programs recognized the inappropriate role of SUDENE in program implementation and has turned over most of its program

responsibilities to the States (van Zyl *et al*, 1995). As with deconcentration, delegation appears also not to be sufficient on its own to guarantee improved rural development outcomes.

Devolution: In the post-independence constitution in India, states were given strong powers to administer their own development programs. The constitution also required elections at the village and district levels for local governments—the *Panchayati Raj*. However, decisions concerning the assignment of functions and resource transfers to these local governments remained at the state level. Most states starved these local governments of resources and let the electoral process at the village and district level break down.

In the 1980s, state governments in West Bengal and Karnataka revived the Panchayati Raj system and mandated district elections to councils at village, block and district levels. To make this political decision meaningful in practice, elected councils were given substantial authority and resource allocations to decide their own development spending. Although opposed initially by the state bureaucracies, devolution has produced a system which was patently more responsive to the felt needs of people at the village level.

Devolution may include elements of both deconcentration and delegation, but it goes beyond these decentralization strategies by recognizing the important role that political and fiscal control plays in better satisfying the demands of the beneficiaries of rural development.

Privatization: In response to criticisms of poor service delivery from publicly-owned institutions, and to fiscal crises in many developing countries, governments have embarked on programs of privatizing services associated with rural development. A series of papers Umali (1992), Umali *et al* (1992), Jaffee & Srivastava (1992) and Umali & Schwartz (1994) have investigated the appropriate role of the private and public sectors for agricultural research, livestock services, seed production and distribution and agricultural extension respectively.

With regard to agricultural extension, for example, there are now numerous instances where the private sector has become involved in service provision that was previously managed by the public sector. These include agro-processing firms, input suppliers, farmers associations, media companies and consulting firms. Farmer associations for vegetables in Turkey and Uganda, poultry in Thailand, tobacco and cotton in Zimbabwe, dairy products in India have all become involved in providing extension and other services to farmers. These institutions are likely to reflect better the wishes of beneficiary farmers else they will not be able to survive commercially. However, there are concerns about the selective participation of the private sector, especially as it is likely to operate only in areas where the economic returns to delivery are sufficient. This will necessitate a continued role for the public sector in providing agricultural services.

The Rondinelli terminology is useful for describing processes of decentralization and for distinguishing differing types of sectoral arrangements where, given the different nature of goods and services provided, different combinations of deconcentration, delegation, devolution and privatization will be required.

Besides the Rondinelli terminology, a further analytical refinement can be discerned in the literature between the *political, fiscal and institutional* dimensions of decentralization. The examples cited above of different types of decentralization indicate how easy it is to undermine one type of decentralization by not giving sufficient attention to other elements of decentralization. For example, the Panchayati Raj experiments in India failed to decentralize fiscal resources to local institutions, effectively rendering useless the attempt to devolve political power on its own. In Brazil, failure to consider existing institutional arrangements left SUDENE isolated and irrelevant to the decentralization process.

In most of the literature to date, however, emphasis given to these broader political, fiscal and institutional elements of decentralization has been segmented according to different disciplines. Thus, political scientists have stressed the political components of decentralization and underplayed the other dimensions; the public choice literature has focused on fiscal issues; and the institutional dimensions of decentralization have often been given insufficient attention, due to the difficulty associated with characterizing the role that NGOs and other community-based organizations might play in decentralization. The result is that no framework has been identified that assesses all the dimensions of decentralization and their interlinkages.

4. Political Decentralization

As the political dimensions of decentralization are generally concerned with increasing public participation through citizens' active engagement in public institutions, all programs of decentralization require formal government commitment to initiate the process. As Arthur Lewis observed almost thirty years ago, "[t]he chief obstacle to further decentralization is political" (1967). If the overriding political environment is not conducive to reform, decentralization is unlikely to be on a government's agenda. As Harris notes in his review of decentralization in Latin America in the 1970s, "[b]ecause of the dominant centralizing tendency and premature bureaucratization of the Latin American political systems, the prospects in general are not very favorable for the successful implementation of forms of political and administrative decentralization that are based on the devolution of power from the national to the local level" (1983: 198).

The importance of the overall political environment can be seen in subsequent decentralization initiatives that have been introduced in many Latin American countries following the transition from autocratic to democratic forms of government that took place during the 1980s. Political transition provided a window of opportunity to introduce important constitutional reforms that permitted the introduction of more decentralized systems of government in Argentina (World Bank, 1990), Brazil (Shah, 1991), Chile (World Bank, 1992b), Colombia (World Bank, 1989), and Venezuela (World Bank, 1992a).

Crook & Manor's (1994, hereafter C&M) comparative analysis of decentralization in South Asia and West Africa is one of the most thorough recent reviews of decentralization. Governments in Bangladesh, Côte d'Ivoire, Ghana and the Indian state of Karnataka all

committed themselves to introducing systems of democratic decentralization. It was hoped that by bringing decision-making closer to communities and encouraging their direct involvement in the political process, the prospects for sustained rural development would be significantly enhanced. Political decentralization was therefore associated with the devolution of specified powers and responsibilities from central government to lower-level political entities. However, the motivation and aims of central governments in devolving political power can vary widely. In the Indian state of Karnataka, a state government in opposition to the national government wanted to demonstrate that it was more imaginative and democratic than its rival to promote its fortunes nationally, and hoped to develop grassroots support by putting in place a system of locally elected councils (C&M).

Ironically, giving life to local political institutions may increase the opportunity for collusion between locally-based elites and the center. This is the political legitimization of the "urban alliance" Lipton (1977) refers to in his description of "urban bias", and will likely lead to a worse outcome for rural populations. In Bangladesh, for example, the Ershad regime hoped to gain control of decentralized, elected councils by making sub-district council Chairmen dependent on patronage from the center (C&M).

Understanding the underlying intent of central government is therefore an important first step in analyzing decentralization initiatives. In turn, this intent will be conditioned by the historical economic, social and political antecedents of a particular country. Thus, in the case of Côte d'Ivoire, the centralizing tendency of the French colonial administrative system combined with traditional social structures that recognized the work of local elites according to their efforts to help their own home towns led to a decentralized system characterized by greater rather than lesser dependency on the center (C&M).

5. Fiscal Decentralization

If decentralized institutions are to perform the responsibilities devolved to them, they will need an appropriate level of fiscal resources to cover the costs of providing rural public goods and services. Three main sources of revenue are available: own, locally-generated resources; transfers from higher-level institutions; and resources from borrowing.

Own Resources: The level of revenues that can be mobilized locally in rural areas is severely restricted. General skepticism about the financial management capabilities of local institutions, coupled with a reluctance on the part of national governments to give up control of resources has resulted in local authorities' ability to tax typically being curtailed or denied entirely. For example, in Zambia, where a recent initiative aimed to put in place a matching grant program for rural development, it was discovered that District authorities had no power to raise revenues and so had no resources to match with central government funds.

Even where local communities do have the power to raise local revenues bestowed on them, this will not necessarily result in them taking advantage of this option, especially if central government prescribes tax rates and defines the tax base. The administrative costs

associated with collecting local taxes may be prohibitive. In Indonesia, subnational governments have access to more than 50 taxes, but more than 80 percent of revenues collected come from only two taxes (Shah and Qureshi, 1994).

In addition, improperly designed programs of subnational revenue-sharing may provide perverse incentives to local institutions not to maximize local fiscal effort. In Brazil, due to the generous provisions of revenue-sharing arrangements implemented in 1990, some municipalities increased public sector payrolls and wages, and lowered local property taxes.

There is clearly the potential for macroeconomic imbalance if local governments are permitted too much revenue-raising autonomy (Prud'homme, 1995). If local governments are allowed unrestricted borrowing without an appropriate system of checks and balances, fiscal problems can rapidly emerge. A fine balance must be found between designing a system of accountability that prevents severe fiscal imbalance, but at the same time does not place unnecessary restrictions on important local fiscal decision-making. For example, restricting local authorities' ability to tax at rates they set breaks an important avenue for increasing accountability, as local political processes offer the possibility for rejecting high-tax incumbents.

Writers often assert that local communities do not possess the resource base to mobilize enough resources (Therkildsen, 1994). While it is true that poor, rural areas are unlikely to be able to cover all their expenditures, it is also the case that they are rarely permitted to raise any at all. Given the opportunity to manage their own financial affairs, local governments have demonstrated an ability to raise revenues and provide a wide range of services (Smoke, 1992).

Intergovernmental Fiscal Transfers: Although greater flexibility in permitting local institutions to mobilize their own resources may result in increased funds at the local level, rural areas are likely to continue to be highly dependent on transfers from higher-level governments. The appropriate design of intergovernmental fiscal transfers (IGFT) is therefore of great importance, and there is a rapidly developing literature that seeks to define a set of principles to guide governments in their design of IGFT. Shah (1994) provides a detailed review of this literature, covering public choice theory and fiscal federalism.

The theoretical and practical literature on decentralization has developed some useful advice on designing IGFT. Few countries have, however, implemented grant programs that incorporate efficiency and equity goals, and possess the desirable qualities of: (i) *transparency*—the basis on which transfers are made, sometimes through an equalization formula, must be clearly stated; (ii) *predictability*—IGFT mechanisms should ensure predictability of subnational government shares from year to year to permit strategic planning; (iii) and *autonomy*—subnational governments should have complete independence and flexibility in setting their own development priorities.

6. Institutional Decentralization

From the perspective of central governments, the institutional dimensions of decentralization are

concerned with defining which formal, government institutions are to be involved in a decentralization program, and the development of an appropriate legal framework that defines the relationships between different institutions. From the perspective of rural people, however, the institutional situation they confront is likely to be far more complex and varied—including institutions based on kinship, or groups organized for collective action purposes. It is not surprising, therefore, that generalizations in the area of institutional decentralization are particularly difficult to define. Nevertheless, there do appear to be a set of discernible conditions that enhance the prospects for successful decentralization.

First, there needs to be a clearly established *legal framework* that defines the decentralized institutions, how they are to be constituted, and how they relate to other institutions. If pre-existing institutional arrangements can be appropriately modified, this task is likely to be more straightforward than in the case where a new set of institutions is being created. Thus, in Karnataka, the state government was able to draw on long-standing enabling legislation that clearly defined institutional arrangements for decentralization. Government line agencies had already been deconcentrated prior to the implementation of political decentralization. By contrast, in Ghana, where the Rawlings government attempted to put in place a new system of deconcentrated line agencies, four years after the legislation was passed these arrangements had not been finalized (C&M).

Second, an active *civil society* appears to assist significantly in implementing decentralization. Putnam's (1993) concept of "social capital" is useful in focusing on the level of associational life in different societies, and highlighting the range of institutions available to participate in decentralization programs. In Ghana, for example, local communities have well-developed political, moral and legal institutions and possess identities that have been encouraged through political competition and participation, and the overlay of party, class and associational groupings. It is no surprise that the largest impact of decentralization in Ghana was felt in the political arena, and participation in the form of electoral turnout was high. In contrast, the results of decades of one-party rule in Côte d'Ivoire resulted in "the almost unnatural quiescence and political apathy of the Ivorian countryside noted by many observers, and the underdevelopment of small town life..." (C&M: 105).

Third, decentralized institutions need to have the *capacity* to carry out the powers and responsibilities devolved to them. In the context of rural development, capacity means being able to do the job and actually improve service delivery. However, the concept of institutional capacity has also proved difficult to define objectively. For example, the existence of a large number of qualified personnel within a decentralized institution, or adequate project financing is only indicative of the presence of capacity, but does not guarantee it.

Findings of a study on municipal local government capacity in Colombia (World Bank, 1995) suggest that there may be considerable latent capacity at the local level, if municipalities are given an active development role. By using existing, but underutilized capacity and

through locally-initiated efforts to upgrade capabilities most of the municipalities selected in the Colombian study were able to meet effectively new challenges posed by decentralization.

Fourth, there needs to be a proper system of *accountability* for decentralized institutions to each of their different constituents, and some system of sanctions that penalizes institutions that fail to carry out their functions appropriately. Where accountability is absent, the legitimacy of a decentralization initiative can be lost quickly. In Ghana, where District Administrators were able to retain effective power because of their ties to the center, local scandals involving embezzlement of public funds went unpunished. In Bangladesh, again because sub-district council chairmen derived most of their power from the Ershad regime in Dhaka, they were permitted to do more or less as they wished and were able to make considerable private profits (C&M).

Concern with the institutional dimensions of development is a relatively new phenomenon. This is clearly reflected in earlier decentralization initiatives in Africa and Asia that focused almost entirely on the administrative institutions of government (Rondinelli, 1983). Although the decentralization experiments in the late 1980s and early 1990s did see the scope of institutions utilized broadened to include elected local councils with devolved powers and responsibilities, other types of institutions, e.g., non-governmental organizations, were still perceived as peripheral.

More recent development programs have begun to encourage actively the involvement of community groups and NGOs by channeling resources for specific smallscale productive or social projects to beneficiary groups, either directly or via intermediation through NGOs. This Social Investment Fund approach (Grosh, 1994) has flourished in many countries, often where bureaucratic or political institutions have been absent. Governments, bilateral donors and multilateral lenders have increasingly resorted to this method. Social funds delegate planning and execution to beneficiary groups or their NGO agents, but they leave ultimate approval and disbursement authority with central project units—the Social Fund administrators.

7. Conceptual framework

Cheema and Rondinelli (1983) recognized the importance of the political, fiscal and institutional elements of decentralization, but these three dimensions of decentralization are not explicitly related to rural development outcomes. The outcomes of rural development can be defined in terms of: (i) *effectiveness*—providing minimum standards of service delivery cost-effectively, and targeted toward disadvantaged groups; (ii) the *responsiveness* of decentralized institutions to the demands of local communities, at the same time as meeting the aims of broader public policy; and (iii) *sustainability* as indicated by political stability, fiscal adequacy and institutional flexibility.

In addition, there is a set of intermediate factors that appear to have a positive impact on rural development outcomes. A growing emphasis has been placed on the

need for enhanced community *participation* (Cernea, 1985; Oakley, 1991). Note, however, that this proposed framework sees participation not as an end in itself but as contributing to an overall process that improves rural development outcomes. An environment that is conducive to greater local *resource mobilization* is likely to provide communities with a better range of development options and can contribute to ensuring sufficient funds are available to cover operation and maintenance costs. Developing the capacities of local institutions is also important to enable them to take on the responsibilities implied by more decentralized decision-making. Better functioning local institutions are likely to be more able to provide the public goods and services local people demand in an efficient equitable manner. Finally, increased accountability among local institutions is an essential element for ensuring that there is a set of incentives in place that rewards institutions—whether they be political parties, local bureaucrats or NGOs—for doing a good job and penalizes them for doing a bad job. The democratic election of local governments can add an important mechanism for accountability (Figure 1).

What becomes clear from this analysis is the need for a systematic approach to decentralization. Hard-and-fast rules are impossible to discern. Like a soufflé in the hands of a master chef who uses just the right combination of milk, eggs and sugar, and bakes it just long enough to rise, so a successful program of decentralization will need a skillful central government to include just the right combination of political, fiscal and institutional elements appropriately sequenced to ensure success. Half-baked decentralization efforts, like half-baked soufflés will collapse!

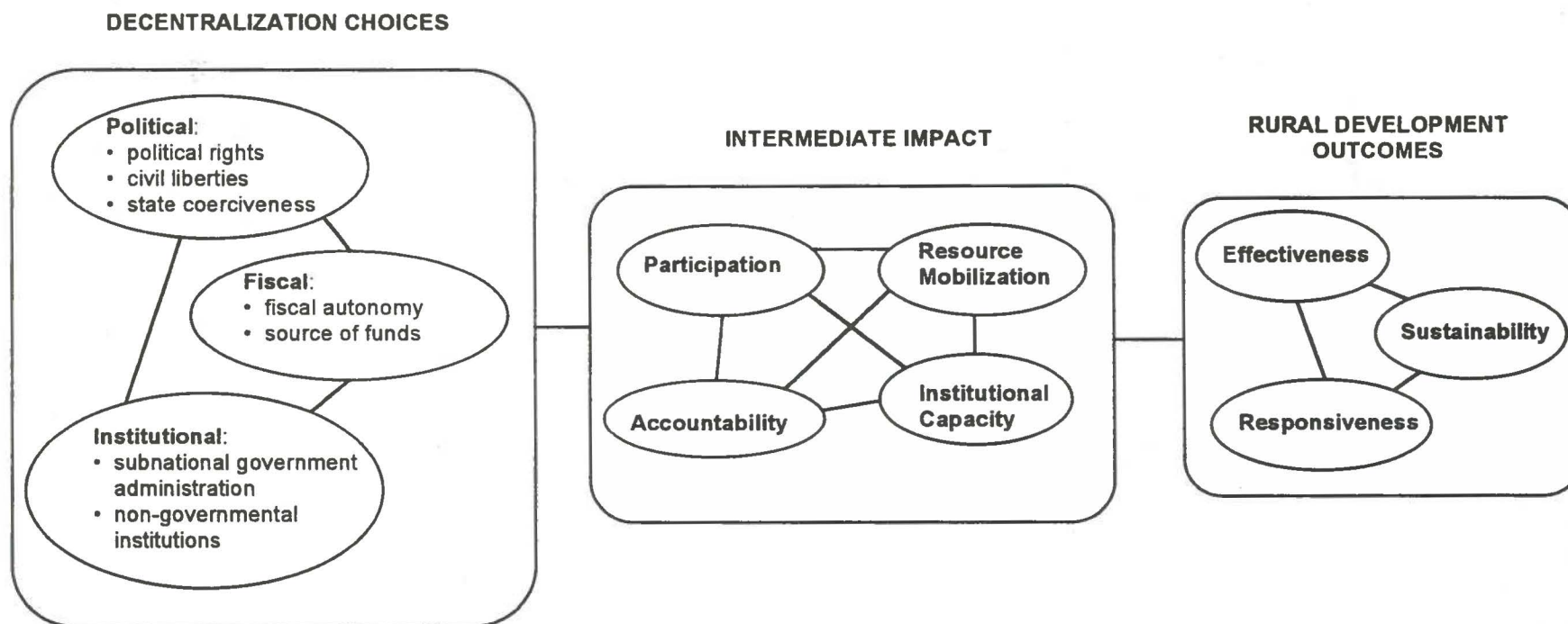
This “soufflé theory of decentralization” attempts to bring together the dimensions of decentralization and to relate them to a set of intermediate outcomes that are likely to have an important impact on overall rural development outputs and outcomes. This simplified conceptual model provides a useful framework for analyzing the separate dimensions of decentralization and their interlinkages, and permits the investigation of patterns of decentralization across countries. This is an essential first step in developing a fuller characterization of the dimensions of decentralization.

8. Conclusions

Previous initiatives have often regarded decentralization as a desirable end in itself—contributing to greater participation and bringing decision-making closer to the people—rather than as a means of achieving improved rural development outputs and outcomes. However, our concern is for decentralization as a means to achieve improved rural development outputs and outcomes.

The outputs of rural development are the tangible goods and services provided by the range of decentralized institutions involved. Ultimately, this will involve the task of assigning powers and responsibilities to the different institutions on a sectoral basis at the subfunction level. Some countries, especially in Latin America, have carefully worked through the assignment process and have implemented programs of decentralized rural development that address the three

Figure 1: Conceptual Model for Analyzing Decentralization



dimensions of political, fiscal and institutional decentralization (Parker, 1995).

These experiences emphasize decentralization as a multi-dimensional process that proceeds with successes and setbacks. Decentralization initiatives will therefore be subject to a continuous process of modification reflecting changes in social, political and economic conditions. What emerges from the previous discussion is the need to include all three dimensions of political, fiscal and institutional decentralization. We have proposed a soufflé theory of decentralization that recognizes the impossibility of designing a single strategy for decentralization, and instead illustrates the importance of different decentralization components and suggests factors that appear to have either a beneficial or detrimental impact on rural development outputs and outcomes.

Nevertheless, there remains a serious gap in our understanding of the various dimensions of decentralization. The degree and different types of patterns of decentralization have not been described and measured in a consistent way across countries or over time, so that at best only an anecdotal characterization of the decentralization of rural development and rural service delivery programs can be made. Without consistent description and measurement of the patterns of decentralization, it is not even possible to assess the issue of whether greater decentralization in some form is associated with greater success in rural development and rural service delivery, or whether it results in better targeting of the poor and reduced poverty levels. Even less can one investigate issues of whether greater decentralization *causes* better rural development outcomes.

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