



DECENTRALIZATION, MULTILEVEL GOVERNANCE AND INTERGOVERNMENTAL RELATIONS: A PRIMER



**LOCAL PUBLIC SECTOR
ALLIANCE**

DECENTRALIZATION, MULTILEVEL GOVERNANCE AND INTERGOVERNMENTAL RELATIONS: A PRIMER

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Preface

The role that decentralization plays in public sector management around the world is evolving rapidly. Whereas decentralization has traditionally been pursued in countries around the world as a governance reform to increase political competition and to bring the public sector closer to the people, multilevel governance reforms to strengthen subnational governance and intergovernmental relations are increasingly understood as critical in promoting inclusive service delivery, ensuring the efficient use of public finances, and achieving resilient and sustainable development.

By its very nature, the analysis of decentralization—or multilevel governance and intergovernmental relations arrangements—is a complex and cross-cutting public policy topic. Ensuring the effective functioning of public sector across different levels of government – so that national policy objectives are achieved at the grassroots level – requires action for strengthening political, administrative, sectoral, and fiscal aspects of public sector management at the same time. Naturally, different stakeholders, often coming from different disciplines, different sectors, and different institutions, bring their own perspectives, insights, and language to the topic.

The primary objective of this primer on decentralization, multilevel governance, and intergovernmental relations is to establish a common framework and to bring common vocabulary to the topic. The idea is to guide policy makers and policy analysts to systematically identify the strengths and weaknesses of a country’s approach(es) to decentralization, multilevel governance, and intergovernmental relations, and to leverage, whenever possible, a country’s intergovernmental systems to improve the effectiveness of the public sector’s performance in achieving results.

This primer is primarily written to inform the perspective of development practitioners, policy makers and policy analysts working in a multilevel governance context. As stated earlier, pursuing inclusive and effective service delivery in a multilevel public sector requires bringing together stakeholders from across different government levels, understanding their various perspectives, and coming up with interventions and solutions that present win-win scenarios for all stakeholders involved. Therefore, this primer also offers a useful frame of reference for policy analysts, government officials, sector experts, and civil society actors involved in multilevel public sector reforms worldwide.

With this context in mind, Section 1 provides an overview of the topic by identifying why countries pursue decentralization (Section 1.1); establishing a common vocabulary around the topic (Section 1.2); providing a conceptual framework for assessing decentralization and the effectiveness of the local public sector (Section 1.3); and

acknowledging the context-specific nature of decentralization as a public sector reform (Section 1.4). Section 2 recognizes that decentralization is not a one-size-fits-all reform and provides an overview of global decentralization experiences by placing country practices within a spectrum of intergovernmental institutional and fiscal arrangements. Section 3 highlights the importance of understanding the political economy of decentralization and intergovernmental relations. Finally, Section 4 highlights some issues to consider for task teams seeking to promote resilient, inclusive, sustainable, and efficient development in the context of a decentralized multilevel governance system.



**Decentralization,
multilevel governance and
intergovernmental relations:
why and what?**

1. Decentralization, multilevel governance and intergovernmental relations: why and what?

1.1 Why decentralization?

Decentralization, the transfer of authority, responsibility and resources over public function from the central government to local governments or other local entities, is one of the most significant public sector reforms pursued by countries around the world.^{1,2} Over the past 25 years, countries have pursued substantial decentralization reforms or reformed their intergovernmental fiscal architecture.

Like any intervention, there are pros and cons to decentralization as a public sector reform. While the specific impetus for pursuing decentralization reforms varies from country to country, the motivation behind decentralization reforms is often derived from one or more of the following four arguments:

- **Efficiency.** A major motivation for decentralization is that centralization is likely to be inefficient. While central government organizations often possess greater institutional capacity than local government organizations, centralization as a system provides a rather inefficient one-size-fits-all approach to policy making, taxation, and public service delivery. Under the right circumstances, decentralization can improve the allocative (and technical) efficiency of the public sector by tailoring policies, taxes, and the provision of public services more closely to the preferences and needs of residents in different regions and localities.
- **Inclusiveness and responsiveness.** Central government inefficiencies tend to be aggravated by the distance between the people and public sector decision-making, while decentralization tends to bring the public sector closer to the people. In

¹ Unless otherwise noted, when referring to government levels, this note will use the terms “local” and “subnational” interchangeably. When used in a more precise manner, local governments are often defined as governments at the lowest level(s) of the territorial-administrative hierarchy, whereas regional or state governments are frequently positioned as an intermediate territorial-administrative level.

² The term, “central government,” refers to the national government in a unitary country or to the federal government in a federal country. The distinguishing feature of a federal country (compared to a unitary country) is that in a federal system some of the powers or rights of subnational governments are protected in the Constitution or Basic Law in a way that cannot be unilaterally undone by the national government. Other than this distinction, all concepts and principles related to decentralization apply equally to federal and unitary countries.

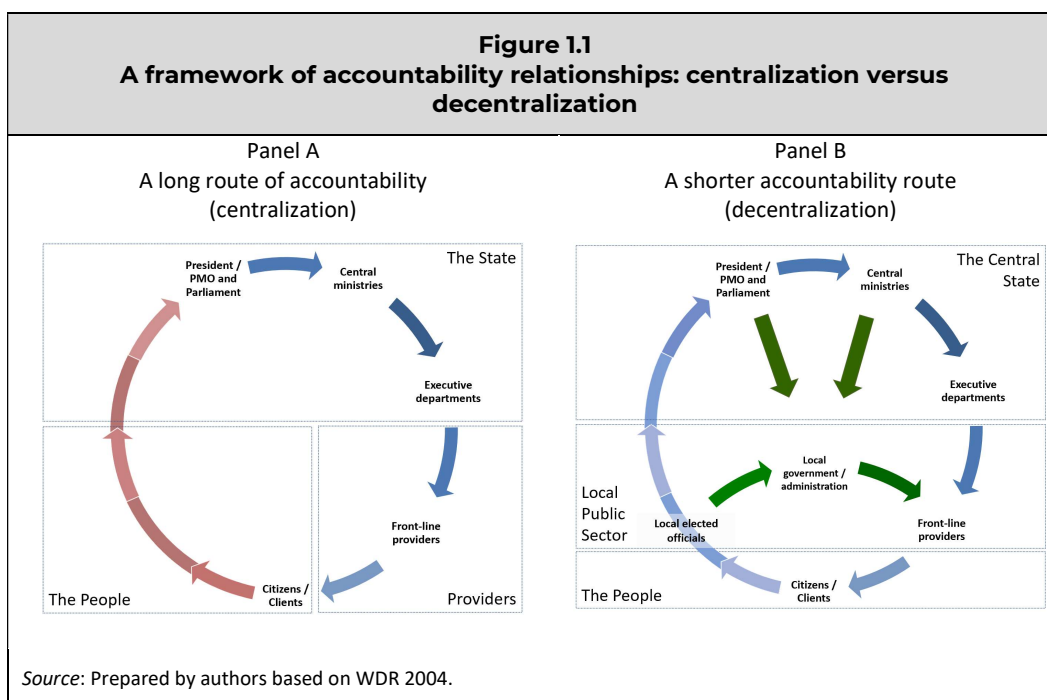
particular, the establishment or increased reliance on democratically elected local governments can enhance the effectiveness of the public sector as a mechanism for inclusive and responsive collective decision-making by shortening the “long” route of accountability between the public sector and its constituents (Figure 1.1, next page).³

- ***Restructuring of political economy forces, especially in fragile and (post-)conflict contexts.*** Decentralization reforms involve changes in the vertical and horizontal distribution of power and resources and therefore have the potential to restructure the political economy dynamics of a country. While political economy considerations are relevant to decentralization reforms in every country, it is not uncommon for the restructuring of intergovernmental relations to be a specific aspect of peacebuilding and state-building in fragile and (post-)conflict countries. In these cases, decentralization reforms are pursued specifically to increase political competition and encourage political pluralism by creating subnational political space and by reducing the political monopolization of the public sector by a ruling party.⁴
- ***Sustainable development and improved public service delivery.*** In countries around the world, many of the pro-poor public services that are required to achieve sustainable global development – education, health services, access to clean water and sanitation, and others – are delivered at the local level. As such, sustainable development interventions and service delivery have important, but often overlooked, local and intergovernmental dimensions.

A caveat should be placed upfront in any discussion of decentralization and intergovernmental fiscal relations: while decentralization presents an *opportunity* to improve the efficiency of the public sector in a multilevel public sector context by moving public sector decision-making closer to the people, the reform in no way *guarantees* greater allocative and technical efficiency or greater accountability. Decentralization is not a panacea by itself. Capacity constraints, weak accountability relationships, and other public sector management challenges faced within the public sector are important factors that influence the outcome. At the same time, however, it is unlikely that the weak frontline performance of the public sector in any country, regardless of its public sector structure, can be resolved without acknowledging the important role of the country’s vertical or intergovernmental fiscal architecture and relations.

³ World Bank. 2004. *WDR 2004: Making Services Work for Poor People*.

⁴ As noted further below, however, decentralization reforms are a pendulum. As such, intergovernmental systems can also be restructured in order to increase the vertical power of the national ruling party or the national government as a whole based on political or political economy considerations.



1.2 Decentralization: Key concepts and definitions

The literature on decentralization, fiscal federalism and local government finance has its foundations in works by political scientists and economists including Paul Samuelson (1954); Charles Tiebout (1956); Ursula Hicks (1961); James Buchanan (1965), Mancur Olson (1965), Wallace Oates (1972), and Dennis Rondinelli (1981). Decentralization is an evolving concept, however, and its role in public sector management and development is increasingly well-understood, including due to more recent efforts by scholars and policy practitioners including Roy Bahl and Richard Bird (2018); Barry Weingast (2009); Paul Smoke (Smoke et al 2011; Smoke 2018); Leonardo Romeo (1999; 2014), Jean-Paul Fauget (2014) and Dorothee Allain-Dupré (2018).

Traditional definition of decentralization. Although there is no single consensus definition of decentralization, most “traditional” definitions are derived from the definition posited by Dennis Rondinelli (1981; 1986; 1999), who defined decentralization as

“the transfer of authority and responsibility for public functions from the central government to subordinate or quasi-independent government organizations or the private sector.”

or in a more detailed manner as the

“transfer of [authority and] responsibility for planning, management, resource-raising and allocation and other functions from the central government and its agencies to (a) field units of central government ministries or agencies; (b) subordinate units or levels of government; (c) semi-autonomous public authorities or corporations; (d) areawide, regional or functional authorities; or (e) nongovernmental private or voluntary organizations.”

Although there are slight variations among Rondinelli’s definitions of decentralization over the years, the core concept of decentralization involves the transfer of authority, responsibility, and resources **away** from the central government and towards more localized actors.

Forms and dimensions of decentralization. Professor Rondinelli’s definition implies that there are several different forms of decentralization, depending on the nature of the *intended recipient* of the authority or responsibility that is being decentralized, including:

- **Deconcentration.** The transfer of authority, responsibility, and resources from the central government to field administration of central government ministries or agencies; in other words, assigning authority and responsibility to local offices within the central bureaucracy.
- **Delegation.** The transfer of authority, responsibility, and resources from the central government to semiautonomous or quasi-public corporations, and the assignment of delegated functions to nongovernment organizations that are ultimately still accountable to the center.
- **Devolution.** The transfer of authority, responsibility, and resources from the central government to (elected) local governments.

In addition, decentralization can be segmented is by the *nature or type of power* that is being decentralized, resulting in three dimensions of decentralization:

- **Political decentralization.** The transfer of political authority and oversight responsibility from the central government to citizens and/or their elected representatives at the local level is often associated with pluralistic politics and representative government. This is because it gives citizens, or their representatives, more influence in the formulation and implementation of policies—decisions made with greater participation will be better informed and more relevant to diverse interests in society than those made by national political authorities alone.

- **Administrative decentralization.** The transfer of administrative authority and responsibility from the central government to subordinate or quasi-independent subnational governments. This involves the transfer of administrative responsibility for the planning, financing, and management of certain public functions from the central government and its agencies to subnational governments.
- **Fiscal decentralization.** The transfer of fiscal authority and responsibility as well as financial resources from the central government to subordinate or quasi-independent subnational governments.

The need for balance between the different dimensions of decentralization. While the three main dimensions of decentralization can be considered in isolation in order to allow for more in-depth analysis, there are clear and strong inter-linkages between these different dimensions. The literature on multilevel governance suggests that public sector outcomes or results can be achieved by more centralized as well as by more decentralized public sector arrangements, but that—regardless of the extent of (de)centralization—public sector effectiveness in a multilevel governance context requires that each of these three dimensions are (a) well-structured and internally coherent, and (b) balanced with the other two dimensions (Boex and Simatupang 2015; OECD 2019). For instance, in order for the benefits of devolved public service delivery to materialize, local governments would need to be assigned a reasonable balance of political, administrative as well as fiscal powers. By contrast, assigning local governments with extensive fiscal powers and resources would be unlikely to achieve better service delivery outcomes in the absence of sufficient political accountability or decentralized administrative authority.

Inconsistent application of definitions and understanding of the concept. Unfortunately, the traditional definitions of decentralization are not universally understood or consistently applied, even within the academic literature. The inconsistent use of terminology tends to cause confusion and takes away from the consistency of Rondinelli's definitions.⁵

Perhaps the most common source of confusion is the interchangeable use by some the terms like “decentralization” and “devolution.” Traditionally, discussions of decentralization have tended to focus on devolution of political, administrative, and fiscal authority and establishing political accountability linkages between citizens and local

⁵ Two common inconsistencies in terminology are, first, to equate devolution and political decentralization, and second, to equate deconcentration and administrative decentralization (Boex 2012). While political decentralization is an important dimension of devolution (without which it would be impossible to have an effective devolved system), these two terms do not share the same meaning. Likewise, while administrative decentralization is an important dimension of deconcentration (without which it would be impossible to have an effective deconcentrated system), these two terms do not mean the same thing.

politicians. In that sense, the term decentralization is often but incorrectly equated to devolution.

Box 1.1 What is a local government?

Devolution is defined as the transfer of authority, responsibility, and resources from the central government to local governments. Thus, in order to have a clear understanding of the meaning of devolution, it is important to clearly define local governments as opposed to, for instance, deconcentrated local administration entities.

Although there is no single consensus definition of local governments, they are often understood to be defined by these four characteristics: (a) separate legal entity or body corporate; (b) authoritative decision-making power over one or more public functions in a local jurisdiction—that is, with its own political leadership; (c) control over its own officers and staff; and (d) responsible for preparing and executing its own budget (WDR 2004; PEFA 2013).

Local governments may be formed at one or more levels of territorial administration; have different legal status in urban versus rural areas; and go by different names in different countries—including local governments, local authorities, local councils, district governments, municipalities, and communes. Some countries recognize two types of local governments, general-purpose local governments or special-purpose local governments. Whereas general-purpose local governments have a broad range of functions or responsibilities, the special-purpose ones typically only have functional responsibility over a single function, such as water boards in the Netherlands or school districts in the United States.

There is no absolute dividing line between what a local government is and what it is not. For instance, based on the characteristics defined above, not all entities traditionally accepted as local government adhere closely to all four characteristics.⁶ In other cases, depending on their adherence to the characteristics noted above, some types of local entities, such as local school committees, may be considered quasi-local government authorities.

It is not unusual, for instance, for a Cabinet to approve a Decentralization Policy or law which spells out a series of decentralization reforms empowering local governments over a number of sectoral functions (i.e., devolution reforms), only for sectoral ministries to implement a series of “sectoral decentralization” reforms by which the ministries empower their own lower-level administrations or frontline service delivery facilities

⁶ For instance, municipalities in Afghanistan lack an elected mayor or council, but are nonetheless viewed as being local governments. In the Netherlands, while municipal councils are elected, mayors are appointed by the central government. In other countries, such as Botswana and Uganda, local governments lack an independent budget or control over their own officers and staff. In fact, it is quite common in many countries for local governments to be (largely) staffed by officers seconded by the central government.

through deconcentration or delegation.⁷ As these different types of decentralization reforms are very different in nature, it is critical to clearly specify the type of decentralization to be pursued. Consistent use of the appropriate terms helps to ensure that everyone is on the same page when discussing a reform, particularly one of such a political nature.

From decentralization to multilevel governance. During the second half of the twentieth century, decentralization (and devolution) in particular, was a dominant public sector reform around the world, particularly in post-colonial developing countries in Africa and Asia. Similarly, decentralization was an important part of public sector reforms in former centrally planned economies and other authoritarian regimes that sought to transition away from central planning and central government dominance to more decentralized, market-based economies. Use of the term, “democratic decentralization,” became especially common in the decade after the collapse of the Berlin Wall (Manor 1999; Crook and Manor 2000). Indeed, the twentieth century saw a string of decentralization reforms around the world focused on democratization, including major decentralization reforms in the Philippines (1991), the Russian Federation (1993), South Africa (1993), and Indonesia (1999).

Despite its continued importance as a major public sector reform, the momentum of decentralization reforms around the world has waned somewhat during the first two decades of the new millennium. Within the global development community, attention shifted from the (largely politically driven) decentralization reforms of the 1990s towards a greater sector focus based on the Millennium Development Goals (MDGs). While major decentralization reforms continued to be introduced in countries such as Kenya (2010) and Nepal (2015), others such as the Russian Federation, and other countries in Central and Eastern Europe experienced a degree of re-centralization.

To some extent, the increased focus on development results – first under the MDGs, and now, under the Sustainable Development Goals (SDGs) – has been accompanied by a shift in tone when speaking about decentralization. Although (democratic or political) decentralization was seen by some as a goal in its own right, decentralization is increasingly understood as a means to an end, with the goal of greater public sector efficiency, a more inclusive and responsive public sector, greater political empowerment, or better service delivery results.

⁷ This was the case during the implementation of Nepal’s Local Self-Government Act (1999). Despite the fact that the legislation clearly empowered local government bodies over primary education, the Ministry of Education transferred responsibility for the operation of primary schools to facility-level school committees – while retaining authoritative decision-making and resource-distribution powers at the ministerial level – based on the argument that the school committees were “closer to the people” than the elected local governments.

The World Development Report 2004, “Making Services Work for Poor People,” was an important inflection point in the global policy debate surrounding decentralization. Prior to this point, decentralization, or specifically, devolution, was generally pursued as a governance-motivated reform, and the capacity of local government institutions was regarded as the main binding constraint to successful devolution. WDR 2004 articulated the more nuanced notion that decentralization is a multilevel governance reform that has the potential to improve public sector performance by shortening the “long route of accountability” between people, central government policy makers, and providers, but explicitly recognized that decentralization is not a one-size-fits all solution. Instead, in order to achieve the effective delivery of (pro-poor) public services in a multilevel public sector, simultaneous interventions would be required at three levels: empowering intergovernmental systems; effective, inclusive and responsive local institutions; and an engaged civil society, citizenry, and private sector. The WDR (2004: 75) further explicitly acknowledged that under different stages of economic and democratic development, resulting in different degrees of client empowerment, different approaches to decentralization and localization would be appropriate.

The conceptual evolution in thinking about decentralization was accompanied by an evolution in the terminology used to discuss decentralization and intergovernmental relations. Whereas the terminology and definitions of decentralization are seen by some to imply a value-judgement that more decentralization is better, some global development actors – including some UN agencies and United Cities and Local Governments (UCLG) – increasingly speak of “localization,” especially when it comes to the localized achievement of the SDGs. Similarly, Boex (2012) adopted the more neutral terminology of the “local public sector,” while others consider the “territorial approach to local development” and “community-led development” (Romeo 2014; THP).

Researchers and practitioners also increasingly use the term “multilevel governance” to refer to different aspects of intergovernmental (fiscal) relations, recognizing that public services are often co-produced by stakeholders at different government levels, often simultaneously relying on different approaches to decentralization or localization, even within the same sector. In turn, the effectiveness of subnational governments is largely defined by the nature of multilevel governance arrangements and by the institutional background of the stakeholders at different government levels (Charbit 2011; Enderlein, Wälti and Zürn 2011).

In this context, the key underlying question is not necessarily whether countries should decentralize or not, or even what model of decentralization should be followed, but rather that public sector effectiveness requires practitioners to focus on identifying ways to improve capacity and coordination among public stakeholders at different levels of

government to increase the efficiency, equity, and sustainability of public spending in the context of a multilevel public sector (e.g., Charbit 2011; OECD 2019).

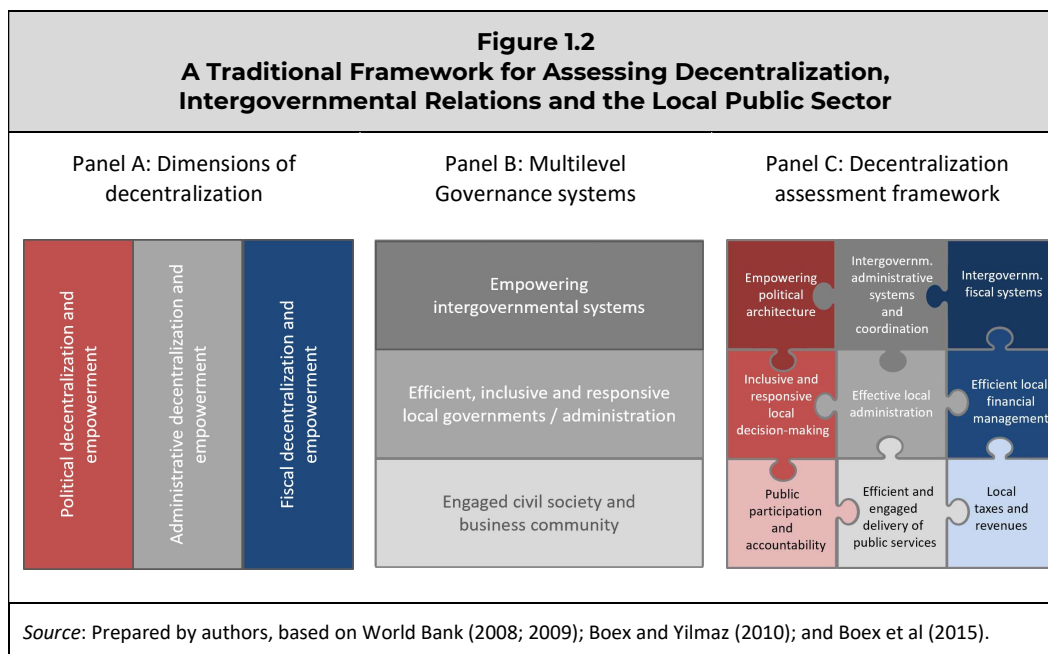
Emerging alternate definitions. In line with this evolving view of decentralization, Roy Bahl (2005) offered, by way of alternative working definition for decentralization, that the concept entails “the empowerment of people by the empowerment of their local governments.” This formulation was slightly generalized by Boex and Yilmaz (2010) to suggest that “*decentralization is the empowerment of people through the empowerment of the local public sector.*”

These emerging alternate definitions should be seen as complements rather than as substitutes to Rondinelli’s original definitions of decentralization. Whereas Rondinelli offered considerable detail on the “what” and “how,” the more recent definitions focus more on the “why” (empowerment), which is a driving force not only behind today’s inclusive global Sustainable Development Agenda, but also fundamental to desire of government leaders and global development actors to promote public sector performance.

1.3 Decentralization, multilevel governance, and intergovernmental relations: An assessment framework

As suggested by the discussion above, the analysis of decentralization, multilevel governance, and intergovernmental relations requires considering the effectiveness and inter-relationship between public sector stakeholders at different government levels. Furthermore, effective decentralized and/or intergovernmental governance arrangements represent a critical component in the efficient delivery of frontline services and in achieving sustainable development results. As such, it is critical to place the different dimensions and elements of decentralization and intergovernmental relations in the larger multilevel governance framework (Figure 1.2, next page).

The assessment framework for decentralization, intergovernmental relations, and the local public sector presented above in Figure 1.2 combines two critical aspects of an effective system of intergovernmental relations. First, decentralization has *political, administrative and fiscal dimensions*, which must be coordinated and balanced in order for decentralization to be successful and effective (Panel A). Second, effective multigovernance systems require action and coordination across three levels, requiring *empowering intergovernmental architecture and systems; efficient, inclusive and responsive local governments and/or other local institutions; and an engaged civil society, citizenry, and local private sector* (Panel B). The resulting assessment framework for decentralization, intergovernmental relations, and the local public sector is formed by a 3 X 3 matrix with 9 different cells, where each of these cells represents an integral part of an effective multilevel public sector.



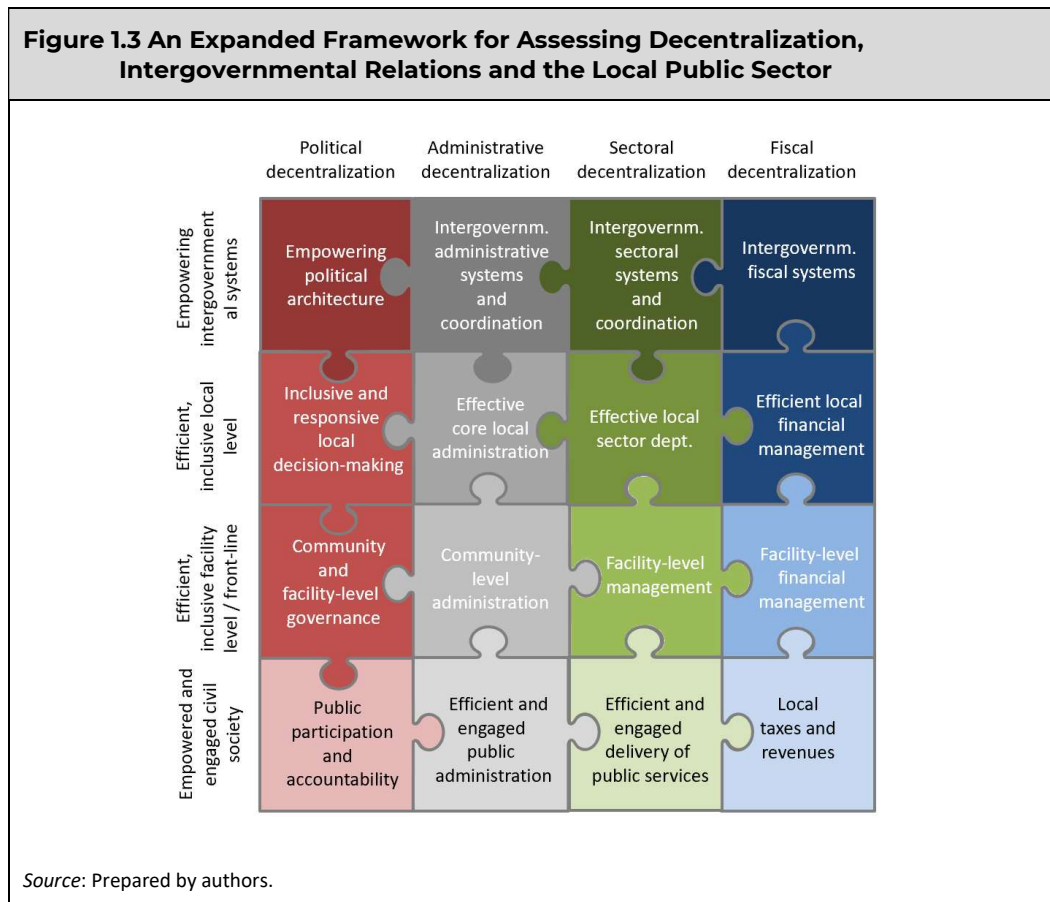
Institutionally, each cell in this matrix corresponds to one or more different institutional stakeholders or actors at each level in the public sector. For instance, central government is not a consolidated, institutional entity or actor, but rather, a constellation of different political, administrative, and fiscal bodies (central ministries, departments and agencies), which sometimes collaborate towards a common purpose, while at other times (tacitly or actively) oppose each other.⁸ Likewise, local governments are also not unified institutional entities: local governments comprise of a number of different local political bodies or actors (the mayor, the council); local administrative actors or departments (chief administrative officer, chief planning officer, chief human resource officer, local sectoral departments); and local financial actors (Finance Department, Revenue Administration Unit, Internal Control Unit).

In turn, each of the stakeholders at each level need three attributes in order to be effective across the spectrum of political, administrative, and fiscal decentralization and empowerment (World Bank 2008, 2009; Boex and Yilmaz 2010). First, each stakeholder needs the *discretion and authority* (the legal power and administrative discretion) to

⁸ For instance, Parliament, the Office of President or Prime Minister, and national political parties are key central-level political actors. The Ministry of Planning (or Planning Commission) and the Civil Service Department are key central-level administrative stakeholders or actors. The Ministry of Finance, the National Treasury (and/or the Accountant-General's Officer), and the National Audit Office are key central-level finance stakeholders.

perform their functions or responsibilities. Second, stakeholders at each level need to have the necessary organizational structure and systems in place and the *institutional capacity* to perform their functions. Third, *accountability* mechanisms need to be in place for stakeholders at each level to be held accountable for their performance. Furthermore, functioning arrangements for inter- and intra-governmental coordination and cooperation are required across and between levels.

The analytical framework visualized in Figure 1.2 provides a general framework which may be fine-tuned to be suitable to a specific country or sector context depending on the exact purpose or focus of intergovernmental fiscal analysis. For instance, it may be useful to reflect the role of regional or intermediate level governments in the analytical framework. In other cases, it may be useful to divide the local government (or local administration) level into two distinct sublevels—the local government (administration) headquarters level as distinct from the frontline service delivery unit or local facility level. This distinction is particularly relevant in places where frontline facilities have distinct de jure or de facto planning, budgeting, or administrative and managerial power (Figure 1.3).

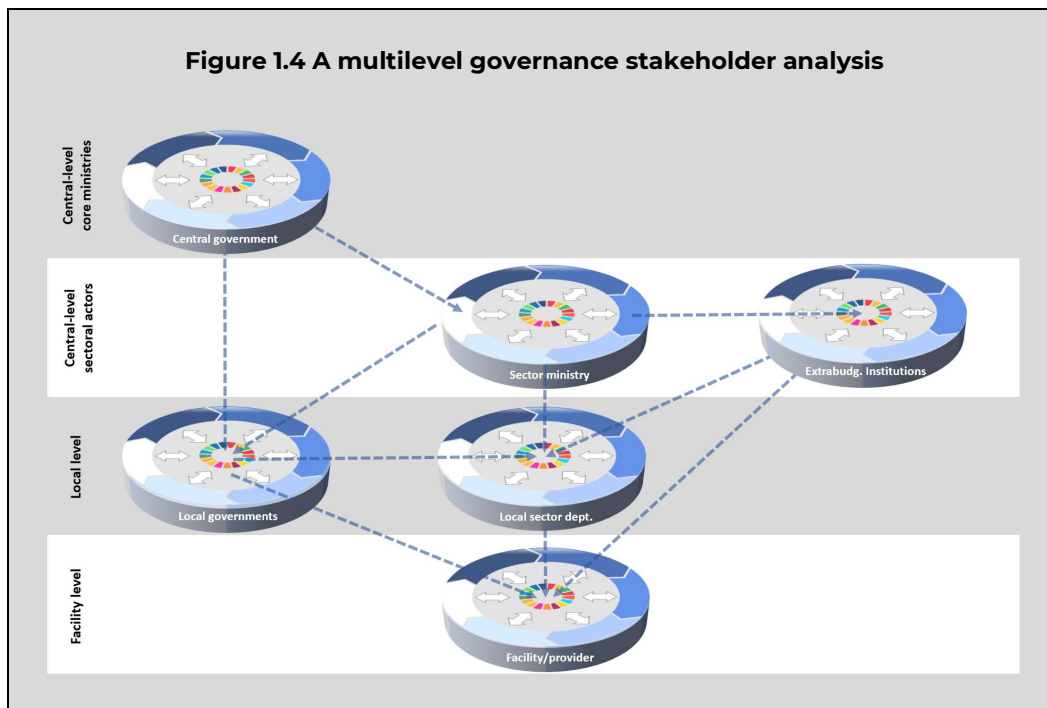


Similarly, when the impact of decentralization or intergovernmental (fiscal) systems is discussed for one or more specific sectors, it might be useful to separate out decentralization concerns that apply to a single sector from more general elements of administrative decentralization (such as the role of the Planning Commission or the Civil Service Department) by adding a “sectoral decentralization and empowerment” column in the diagram (again, Figure 1.3).

This allows for more detailed analysis of sector-specific elements, as optimal sectoral arrangements may vary from sector to sector. This sectoral column can then allow a greater focus on sector-specific subsystems, such as the formulation and implementation of sectoral policies, plans and regulations; sectoral HRM issues; and sector-specific supply chains; as compared to administrative constraints outside the purview of the sector ministry.

The framework presented in Figure 1.3 is largely conceptual in nature. A first step applying this conceptual framework to a specific country and/or sector context would involve the preparation of a comprehensive overview of the different stakeholders directly or indirectly involved in delivering frontline public services. Such a public sector institutional analysis should be done in such a way that allows policy makers and policy analysts to not only consider the strengths and weaknesses of all stakeholders or public sector entities involved, but also in a way that allows the team to identify where the distribution of functions, powers, and resources—in addition to coordination among different stakeholders—may form a binding constraint to effective and responsive service delivery (Figure 1.4).⁹

⁹ Please refer to the World Bank’s GovEnable documentation on decentralization and multilevel governance for more detailed guidance on how to operationalize related public institutional governance and expenditure reviews.



1.4 The evolving nature of decentralization as a public sector reform

What works in public sector reform is highly context dependent. Explicit evidence that one approach to decentralization or localization might be more effective than others in achieving development results is limited (Smoke et al, 2013). While decentralization is being pursued by countries around the world, decentralization processes and reforms of intergovernmental (fiscal) systems are not a linear process. Indeed, Wallace Oates (2005) suggests that

“Contrasting forces, some leading to increased fiscal centralization and some to greater decentralization, are producing an ongoing restructuring of public sectors throughout the world.”

From a technical viewpoint, public sector management reforms seek to improve public sector results by changing the way that governments work (World Bank 2012). Whereas most public sector reforms are initiated upstream by core central ministries, it is downstream where the public sector delivers outputs that directly matter to citizens and firms. As such, sustainable decentralization reforms require that thousands of public agents alter their behavior.

A final takeaway is that during the design and implementation of major decentralization reforms, or in the subsequent fine-tuning of intergovernmental relations, political and institutional incentives may be at odds with improving public sector performance. It is not unusual for central government politicians and bureaucrats to support the concept of decentralization during the policy formulation stage only to oppose its implementation when the reforms threaten to limit their own political, financial, or institutional powers. As such, understanding the wider context of decentralization reforms, including its political, administrative, and fiscal dimensions, through a political economy lens is critical to understanding the real-world opportunities and potential limitations to a more decentralized public sector.



**Placing country practices
within a spectrum of
intergovernmental
institutional and fiscal
arrangements**

2. Placing country practices within a spectrum of intergovernmental institutional and fiscal arrangements

Based on the general context provided by the different dimensions of decentralization or intergovernmental relations, the first step is to conduct an analysis to identify the exact nature of the multilevel public sector in the country. This can be done formally as part of exercise such as a Public Expenditure and Institutional Review (PEIR), a Decentralization Policy Review, or as part of a design process of a lending operation.

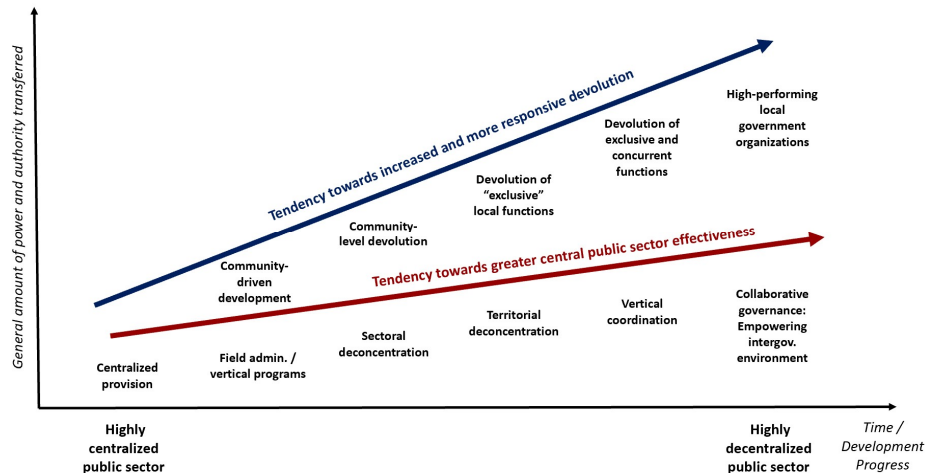
2.1 Intergovernmental arrangements tend to evolve with the state of development

In some countries, decentralization reforms and the restructuring of intergovernmental arrangements are gradual processes that take years or even decades to complete, as in Ghana and Zambia, for example. In other countries, including Indonesia, Kenya, and Nepal, intergovernmental arrangements are completely changed from one year to the next (or in a few short years) following a “big bang” approach. Although decentralization and localization are not linear processes and each country’s decentralization trajectory is unique, it is useful to consider that the general nature and composition of intergovernmental institutional and fiscal arrangements tends to evolve over time and with a country’s state of development – or over time, with the level of urbanization – from a more centralized public sector to more a decentralized public sector governance system (Figure 2.1).

Three specific institutional reforms and trends tend to capture the changing nature of decentralized or intergovernmental arrangements over time:

- ***Decentralization and modernization within the central public sector.*** First, within the central public sector, the nature and balance of centralization versus localization tends to evolve along the development spectrum. In less developed, low-income country contexts, central government administrations tend to function as traditional, hierarchical (top-down) and bureaucratic administrative entities, which leave little or no decision-making space for officials at lower levels of the administrative hierarchy. As a country moves along the development spectrum, central government administrators tend to adopt more results-oriented and collaborative public administration approaches, and thus, start seeing local level administrators and/or local governments as potential partners within the public sector, rather than as competitors for scarce resources.

Figure 2.1 Intergovernmental arrangements tend to evolve with the state of development



Source: Authors.

- The nature of devolved institutions and finances tends to be associated with where countries are on the development spectrum.*** Second, to the extent that the public sector relies on elected subnational governments, the nature of devolved institutions and devolved finance tends to evolve as countries move along the development spectrum albeit again, not necessarily in a consistent or linear manner. While local institutional capacity is not just a function of overall development progress, the administrative and governance capacity of local governments tends to improve over time and with development progress. Similar to the central level, in low-income countries and low-empowerment contexts, local government administrations tend to function as hierarchical, rule-based, and bureaucratic administrative entities. In this kind of less developed context, public participation and bottom-up accountability is hard to achieve (Collier 2010). By contrast, in higher income countries and empowered intergovernmental contexts, local governments aim to function as collaborative, high-performing organizations which are capable of proactively identifying and responding to the needs of local constituents.
- The shifting balance between centralized and devolved institutions and expenditures.*** Third, as a country's state of development evolves, the balance between different modalities of decentralization and localization tends to shift from central government institutions towards greater reliance on devolved institutions, such as regional and local governments, and devolved financing mechanisms.

While these three general decentralization trends tend to take place as a country's state of development evolves, the three different trajectories of decentralization and localization do not necessarily evolve at the same speed. For instance, devolution in any specific country may tend to progress more or less rapidly compared to the extent to which the public sector is effectively deconcentrating. Considerations regarding the sequencing of decentralization reforms are explored further below.

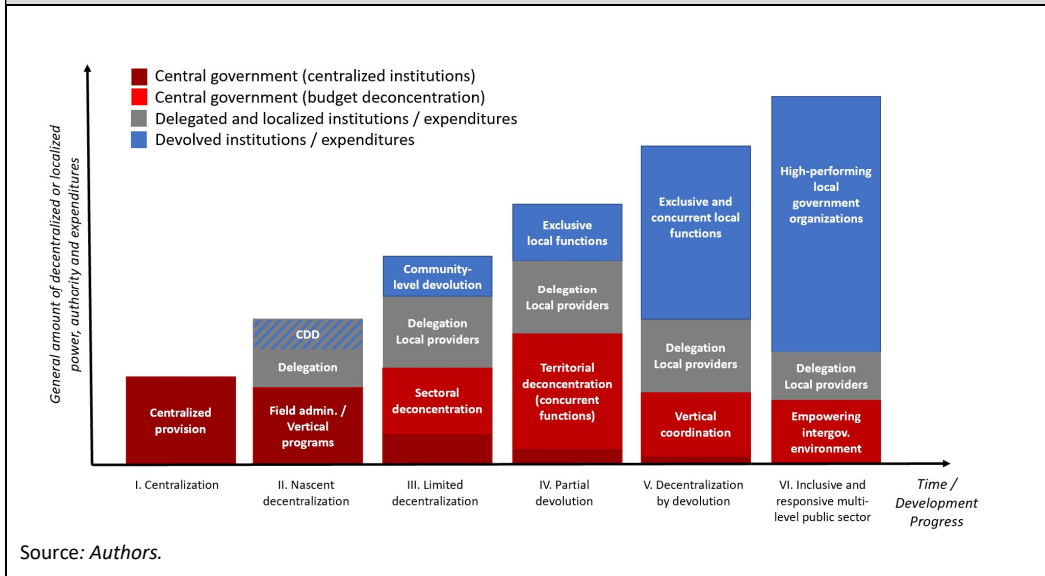
In addition, before getting into further detail, it is important to recognize that it is not necessarily every country's ambition to adopt a highly devolved public sector structure. Although there are certain benefits uniquely tied to democratic decentralization, devolution is merely one way to deal with the pressures on the public sector brought about by social and economic complexity. At the same time, because this analysis is partial to the fiscal features of decentralization, there might be important political or societal forces that provide a counterweight to demands for devolution. For instance, it is understandable for central officials to resist pressures to decentralize (by devolution) if this reform is expected to promote societal fragmentation and promote centrifugal forces (Brancati 2009).

2.2 A typology of intergovernmental (institutional and fiscal) arrangements

No two countries are exactly alike when it comes to the nature of their state of intergovernmental arrangements. Additionally, there is nothing automatic about the evolution of intergovernmental arrangements as economic and social development takes place in a country. Nonetheless, it might be useful to specify six different generic types of decentralization and localization that reflect a "typical" state of institutional and fiscal arrangements or expenditure approaches along the intergovernmental spectrum (Figure 2.2).

The generic typology in Figure 2.2 presents six "textbook" types of intergovernmental arrangements. From a highly centralized institutional and fiscal system, where the central government is paramount and the public sector's budgetary resources are fully contained in the budget of the central government without any further decentralization or localization, arrangements can evolve to more decentralized or localized institutional and fiscal approaches. These approaches typically form intermediate steps on a long-term trajectory from more centralized to more decentralized public sector institutions and expenditures. As suggested by the typology, it is often the case that within a country, there is a simultaneous (and often messy) mix of central implementation, delegation, deconcentration, and decentralization happening all at once across and even within sectors, types, and levels of subnational government.

Figure 2.2
A typology of intergovernmental institutional and fiscal arrangements



At the lowest state of development, when the central public sector has an extremely limited capacity – for instance, in an immediate post-conflict scenario – the public sector tends to organize itself in a highly centralized manner in order to use its scarce human and financial resources as efficiently as possible. This was the case in post-conflict Sierra Leone, prior to the adoption of Local Government Act of 2004. Very few countries, if any, permanently remain in this state of complete centralization.

Despite some theoretical advantages to centralized governance and administration, highly centralized and concentrated public sectors tend to have major challenges in effectively localizing public services and achieving community engagement. Under such conditions, a first step in improving public services and increasing the legitimacy of state institutions can be achieved through the development of an effective field administration, along with the introduction of vertical sector programs and community-driven development (CDD) interventions. These may be coupled with delegation of service delivery functions to dedicated service delivery authorities. For instance, in Afghanistan, the National Solidary Program introduced Community Development Councils (CDCs) in 2003 in order to bring the public sector closer to the people (World Bank 2015).

In turn, each next step in the typology resolves a common (binding) constraint in the preceding intergovernmental arrangement as countries tend to move towards a more decentralized and localized public sector as social and economic conditions evolve with

the overall level of development.¹⁰ For example, there tends to be a somewhat natural progression in the nature and organization of the central public sector over time, where at each stage of decentralization, the public sector tries to resolve the main binding constraint of the previous one. So, the sector evolves from a fully centralized institutional and fiscal structure to administrative deconcentration, to vertical (sectoral) budgetary deconcentration, and eventually, horizontal (territorial) deconcentration.¹¹ In turn, a well-functioning system of horizontal deconcentration is often considered a precondition for effective devolution (Bahl and Martinez-Vazquez 2006).

Similarly, the nature and level of spending of devolved local governments tends to be associated with where countries are on the development spectrum; in low-capacity development contexts, devolution efforts tend to focus on community-level local jurisdictions, such as communes or villages, and often involve a limited set of functional responsibilities. As the institutional potential of local governments tends to grow along with the state of development, local governments in more advanced development contexts are able to incrementally take on a more prominent role in public infrastructure development and service delivery.

While it is possible to “jump” one or more stages of the decentralization process, doing so does typically complicate the decentralization or localization reforms. For instance, in recent years, both Kenya and Nepal started their constitutionally-driven devolution reforms with subnational government entities that were created *de novo* rather than relying on preexisting territorial-administrative jurisdictions. This meant that they had to “build the car while driving it”—that is, build the institutional capacity of subnational governments from scratch at the same time as functional responsibilities were transferred. The decentralization process in these countries posed significantly greater challenges and risks to service delivery outcomes when compared to more sequential reforms. For example, the district-level local government organizations empowered by

¹⁰ Although it is difficult to precisely match real-world public sector systems to these textbook decentralization types, Bangladesh and Cambodia might serve as examples of limited decentralization (Type III); Mozambique might offer an example of partial devolution (Type IV); Indonesia, Kenya, Nepal are examples of full devolution (Type V), while Denmark might offer an example of an inclusive and responsive multilevel public sector (Type VI).

¹¹ Administrative deconcentration without corresponding budget deconcentration (i.e., relying on deconcentrated field offices without giving them some degree of resource autonomy) tends to result in vertical imbalances between human resources and finances within the government administration. This constraint can most easily be resolved by introducing budgetary deconcentration within each sector ministry budget. However, because under a vertical or sectoral approach to deconcentration, each line ministry operates ‘vertically’ in a deconcentrated manner, this approach typically does not allow for much—if any—harmonization of planning and budgeting across sectors at the provincial or district level. In turn, this challenge can be resolved at the appropriate time by shifting from vertical (sectoral) deconcentration to horizontal or territorial deconcentration.

the “big bang” decentralization reforms in Indonesia in 2001 built on previously established (territorially deconcentrated) district administration units. This meant that despite a considerable change in the local political system, the basic management of local administration and local service delivery continued largely uninterrupted.

Box 2.1 Different types of deconcentration

In countries that do not have elected local government levels, the local public sector is typically formed by “deconcentrated” subnational line departments or subnational territorial units of the national government, which form a hierarchical, administrative tier of the higher-level government. In these countries, these deconcentrated subnational administrative units are generally assigned the responsibility for delivering key government services such as education and health services within their respective geographic jurisdictions. As such, in a deconcentrated system, the provincial education department or the district education office (for instance) might be a suborganization of the national Ministry of Education, rather than reporting to any elected local council. Even in countries that do have elected local governments, some or most public services may be delivered through deconcentrated administration units.

Because deconcentrated departments or jurisdictions are merely a hierarchical part of the next-higher government level, unlike local governments, deconcentrated units are not corporate bodies. Nor do deconcentrated jurisdictions have their own budgets; instead, their budgets are typically designated as suborganizations within the budget of the higher government level. In deconcentrated systems, “local” government officials are an integral part of the national public service, and local executives, such as regional or district governors, as well as local department heads, are generally appointed by the central government.

In some countries, central line ministries are organized administratively or organizationally in a deconcentrated manner, while the deconcentrated entities are not recognized as separate budget entities in the country’s budget structure. This is generally known as **administrative deconcentration**. In contrast, **budgetary deconcentration** can be defined as a situation in which deconcentrated entities (i) form an organizational part of the national (state) administration; (ii) deliver public services or perform its functions in accordance with a territorial mandate; and (iii) constitute a formal budgetary entity in the Chart of Accounts (along the organizational dimension of the budget). In addition, it may be helpful to further divide deconcentrated public sector structures – or deconcentration of budget structures – into two different types of deconcentration: vertical or sectoral deconcentration versus horizontal or territorial deconcentration.

The hallmark of a **vertical (or sectoral) deconcentrated structure** is that line ministry budgets are organizationally distributed across different government levels or tiers, so that subnational (provincial or district) line departments service as separate suborganizations and cost centers within their line ministry budgets. From an institutional and budgetary viewpoint, this means that every line ministry follows a “silo-structure” or a “stove pipe” from the central level down to the province level, and possibly to district level. Vertical deconcentration allows line ministries a strong role in planning and implementing sectoral services.

Under a **horizontal (or territorial) deconcentrated budget structure**, subnational line departments are not included in the budget under their parent ministries. Instead, subnational revenues and expenditures are included in the central budget and aggregated into territorial units, which are then broken down into subnational departments. As a result, under horizontal (or territorial) deconcentration, sectoral departments at each administrative level are administratively subordinate (for example) to the Provincial Governor or to the District Governor, respectively. As such, under horizontal deconcentration, the subnational budget reflects the aggregation of spending decisions made by the center to be executed within the subnational jurisdiction. However, since the subnational spending is no longer contained with the budget votes of individual line ministries, subnational officials are better able to coordinate their efforts across sectors and may have greater discretion over subnational expenditures in order to respond better to local priorities.

Source: LPSI Handbook (2012).

2.3 Sequencing decentralization

Although Figures 2.1 and 2.2 are highly stylized, and each individual country determines its own objectives, path, and destination when it comes to decentralization and localization reforms, this typology provides useful guidance with respect to the gradual improvement of subnational and intergovernmental institutions and (fiscal) management, as in reality, only a few countries (if any) transition from a complete centralized system to a fully inclusive, responsive devolved public sector system in a single step.

Instead, over the course of decades (or longer), countries may adjust their intergovernmental systems to prevailing political, economic and social conditions, often in an iterative manner. Bahl and Martinez-Vazquez (2006) describe a normative approach to sequencing decentralization, containing a sequence of six steps, including: Step 1 - carry out a national debate on the issues related to decentralization policy; Step 2 - do the policy design and develop a White Paper; Step 3 - pass the Decentralization Law; Step 4 - develop the implementing regulations; Step 5 - implement the decentralization program; and Step 6 - monitor, evaluate, and retrofit.

In reality, decentralization reforms are seldom sequenced in a linear fashion, with forward progress often achieved when windows of opportunity for reform arise. There may be significant variances between the decentralization policies and legislation passed and their interpretation and implementation on the ground. Therefore, sometimes countries take two steps forward and one step back, while at other times taking one step forward and two steps back. Furthermore, while the long arc of multilevel governance bends towards devolution as development progresses, the arc is long and, at any given point in time, does not necessarily always point towards greater devolution. Instead, in the short term, the direction and nature of intergovernmental reforms is often dictated not by what

might be technically optimal, but by what is feasible given the political realities of the time.



**Understanding
the political economy of
decentralization and
intergovernmental relations**

3. Understanding the political economy of decentralization and intergovernmental relations

Given that the direction of intergovernmental reforms is often dictated by political realities, the design and evolution of decentralization, or a country's intergovernmental architecture, should not only be considered through a technical lens, but should also be understood in the context of the political economy forces that help define it.

3.1 Why is understanding the political economy of decentralization crucial?

Political economy relates to the prevailing political and economic processes in society by taking account of the incentives, relationships, distribution, and contestation of power between different groups and individuals (GSDRC 2014). The interaction between these forces generates particular policy outcomes that may encourage or hinder development (DFID 2009). Formal institutions – such as the rule of law, elections, and intergovernmental systems – and informal social, political, and cultural norms play key roles in shaping human interaction and political and economic competition.

Decentralization reforms—as well as other public sector reforms—are not just technical processes to be decided by technocrats, but rather, reflect a political or institutional contestation of power between different groups and individuals across and within different government levels. They can restructure the local political setting, reshaping local actor and voter incentives in many ways, such as changing the size of municipalities, reformulating local electoral legislation, and redefining formal relationships between the representative and executive bodies (Keating, 1995). They can also change the structure of legislative bodies, the balance between elected local authorities and local executives and administrators, the way councils are elected, the way executives are elected or appointed, and the structures for local legislative and executive bodies to relate to citizens.

Taking time to understand the political economy of decentralization reform is particularly useful for development practitioners since it helps consider the drivers of political and institutional behavior, forces us to reflect on who the main “winners” and “losers” are within public sector systems, and how incentives and institutional relationships shapes the design and implementation (or the lack of implementation) of particular policies and programs (ODI 2009). In turn, this allows us to evaluate and design better policy solutions by ruling out reforms that are politically or institutionally not viable, and by addressing, fine-tuning or working around processes where political and institutional motivations or incentives get in the way of public sector efficiency.

Why is it important to consider political economy drivers across different dimensions of decentralization? Intergovernmental systems are highly interlinked. For instance, each pillar of fiscal decentralization—as well as each other element of an effective intergovernmental system—is not only related to other pillars of fiscal decentralization in terms of design and implementation, but also to the other dimensions, such as political and administrative, of an effective intergovernmental system.

Often problems in one dimension of decentralization or at one government level are merely symptoms of more widespread systematic obstacles or failures. Weak service delivery is a symptom that is commonly identified in discussions on local governance, decentralization, and localization as being a major problem at the local level. Similarly, weak local administration or weak local public financial management might be singled out as challenges to be addressed. More often than not, however, these problems are merely the symptoms of problems in the political or administrative sphere. Without considering the political economy context, the policy response would be to treat the issue narrowly as a technical problem, which would be inappropriate and ineffective. In some cases, fiscal instruments—especially intergovernmental fiscal transfers—can be leveraged to improve constraints in the political and administrative dimensions of intergovernmental relations.

Box 3.1 The political economy of subnational government structures

In addition to the influence of political economy forces on the design of the political, administrative, sectoral, and fiscal aspects of multilevel governance and intergovernmental relations, political economy forces often have a direct impact on the underlying intergovernmental architecture—that is, the number of subnational government levels, the number and size of governments at each level, their functional responsibilities, and the degree of their control over financial and human resources.

It is not unusual for decentralization reforms to devolve powers to a lower government level for political reasons to circumvent possible political capture at a higher level. For example, Indonesia, during its “big bang” decentralization reforms, shifted powers and functions to the local government level in order to avoid potential centrifugal forces at the provincial level. Similar political economy forces helped to inform the post-conflict transition of state structures in Mozambique (preventing opposition capture of provincial governments), the nature of decentralization reforms during the Musharraf era in Pakistan (bypassing provincial structures in favor of the Tehsil and Zila), and the fragmented local government structure under the new federal system in Nepal.

Another challenge common across many countries is that central government powerholders have a tendency to promote the creation of new local governments as a way of dispensing favor to different local jurisdictions. Uganda is a frequently cited example in this regard (Awortwi and Helmsing 2014). While this practice strengthens the central executive’s influence over

subnational actors, the result is often an inefficient and excessively fragmented local government structure.

A third political economy dynamic related to subnational government structures is the practice of politically ring-fencing the power of larger urban areas. In the United States, this phenomenon is known as “red states, blue cities,” and has been identified as an important factor in the state-level preemption of local government powers in many U.S. states (NLC 2018).

Given that urban areas tend to be the springboard for opposition parties and politicians, it is not unusual for ruling political parties to be sensitive to preventing such subnational political space from emerging. There are examples to show that it is not unusual for larger city corporations to be assigned fewer functional powers than smaller municipalities (Bangladesh), redefining jurisdictional boundaries or breaking up the capital city into multiple jurisdictions (Tanzania), or placing the national capital—in part or in whole—under the purview of a Capital Authority rather than an elected body (Kampala).

3.2 Why is sound decentralization an unlikely reform?

Despite the many potential benefits of decentralization, the stakeholders most responsible for championing decentralization reforms—elected national politicians and national-level bureaucrats—often face diverse incentives to pursue, to appear to pursue, and even to limit decentralization reform (Eaton, Kaiser and Smoke 2011).

Decentralization, when implemented under the right circumstances, in a careful and balanced manner, has the potential for long-term benefits to the country as a whole. But, in the short-run, it requires different national-level ministries to give up some of their power and control over resources. For analytical purposes, it is useful to distinguish between the motivations facing elected politicians at the central government level, and the motivations and incentives being faced by appointed central bureaucrats tasked with representing specific government departments or units. Politicians have to deal with electoral, partisan, institutional, and coalitional incentives and constraints; bureaucrats are primarily concerned about advancing narrower institutional powers and interests; improving career trajectories for themselves and their teams; and preventing rival agencies from interfering in their responsibilities, powers and resources.

Despite the long-term benefits, then, why would elected political leaders and national-level bureaucrats pursue decentralization reforms if this means giving up power and control? Indeed, in practice, we often see that central government stakeholders are not fully committed to decentralization:

- *The extent of political decentralization may be limited, or local governments may not be meaningfully empowered over functional responsibilities.* For instance, the Constitution or Decentralization Law may be approved by parliament but, in reality,

not meaningfully implemented, or there may be extensive conflicts between the decentralization law and sectoral laws as to the actual role of local governments in key sectors. In other cases, elected local bodies may be introduced without being given authoritative decision-making power, so that local plans and decisions may still need to be approved by the central government, and can still be arbitrarily changed by higher-level officials.

- *The decentralization of administrative powers may be limited.* Similarly, despite functional assignments in the constitution or legal framework, sector ministries may, in practice, retain effective control over key sectoral functions. In fact, it is not uncommon for higher-level governments to have full (or nearly full) control over local government staff that is responsible for the delivery of legally devolved local public services as pertains in India, Sierra Leone, and Tanzania.
- *Even in places where political and administrative powers and functions have been devolved, central authorities can retain substantial control over the local public sector simply by failing to decentralize adequate fiscal powers and resources.* Starved of financial resources, the central government can introduce highly earmarked grants to micro-manage local decision-making, or simply declare local governments incapable of delivering services and allow sector ministries to retain or retrench the *de facto* responsibility for frontline service delivery. This *de facto* degree of control can vary significantly from sector to sector.

Furthermore, within the central government, different stakeholders may have different motivations and concerns in supporting decentralization reforms. In fact, rather than as champions for decentralization, Bahl (1999) considers most central government ministries as potentially weak or ambivalent supporters of decentralization reforms. For instance, as the steward of a country's finances, the main concerns of the Ministry of Finance include fiduciary control, macro-fiscal stability, and efficient public resource utilization. As such, the Finance Ministry might propose strict limits to decentralization in order to hold on to the main fiscal tools for stabilization policy purposes. Likewise, central line ministries may only weakly support decentralization, unless they are assured substantial control of the standards of local public service delivery, including direct or indirect power over local staff or frontline service delivery decisions. In fact, even the Ministry of Local Government is often only seen as an ambivalent supporter of decentralization reform. While the ministry would generally favor greater functional powers and a greater guaranteed share of resources for local governments, it would often like to ensure top-down oversight by the Ministry over local government activities, while controlling the distribution of those resources to the local level itself.

It was noted earlier in this document that in order to reap the benefit from decentralization, the intergovernmental architecture should balance authority and accountability across the political (or governance), administrative, and fiscal aspects of

decentralization. From a political economy angle, however, Eaton and Schroeder (2010) suggest that it is not unusual for central government stakeholders to give the appearance of pursuing decentralization, while in reality clinging to power in at least some dimension of decentralization. This allows the central government to appear as a champion of decentralization, while effectively maintaining power over the local public sector by its control over the political, administrative, or fiscal levers (Boex and Yilmaz 2010; Boex and Simatupang 2015).

3.3 Different political economy viewpoints on decentralization at the local level

Local governments, like their higher-level counterparts, are not a monolithic entity. As such, local governments should be understood as political bodies with complex internal workings: while working together, the motivations and incentives acting on the mayor or executive; the council or assembly; the local administrative officers; local department heads; and local frontline staff are all likely to differ slightly depending on their location in the organization.

It is again useful to distinguish between the motivations facing elected local politicians—who are facing electoral, party-political, and other incentives and constraints (both locally and from above)—and the motivations and incentives faced by appointed local bureaucrats and administrators—who may be more interested in advancing a more limited agenda (consolidating institutional or personal power, improving career trajectories, and checking rival agencies) than with the overarching mission and vision of the local or regional government.

It is important in political economy analysis to set value judgements aside. While we would like to believe that a mayor *should* care about clean water and sanitation as a human right for her constituents, the real question is: *Is she able to care about such long-term sectoral investments when faced with competing demands over scarce resources, including demands from her political party headquarters, or incentives to spend available resources on projects that have a more immediate impact of the livelihoods of her constituents, and thus help secure re-election?* Likewise, we know that as professionals, teachers and medical workers *should* be committed to effectively providing public services to their students and patients, but it is nonetheless important to explore what incentives and institutional constraints cause the absenteeism and weak local service delivery performance at the front line in education and health identified in so many countries.

In fact, the incentive being faced by local stakeholders—including local politicians, local administrators, as well as citizens and local civil society actors—is likely to be highly context specific. For instance, a big city mayor may be a champion of decentralization,

but will mainly be interested in more own source revenue instruments. By contrast, a chairman of a rural district may see decentralization in a positive light, but—lacking a strong economic base—is likely to be interested in receiving more unconditional equalization grants (Bahl 1999).¹²

Box 3.2 Background and resources on (general) political economy analysis of decentralization

- **Implementation Rules for Fiscal Decentralization** (Roy Bahl): [World Bank, 1999](#).
- **Making Decentralization Work: Democracy, Development, and Security** (Ed Connerley, Kent Eaton, and Paul Smoke, eds.): [Lynne Rienner, 2010](#).
- **The Political Economy of Decentralization Reforms: Implications for Aid Effectiveness** (Kent Eaton, Kai-Alexander Kaiser, Paul J. Smoke): [World Bank, 2011](#).
- **A Comparative Overview of Local Governance Systems in Selected Countries** (Jamie Boex and Renata Simatupang 2015): [Local Public Sector Initiative, 2015](#).
- **The Technical Is Political - Why Understanding the Political Implications of Technical Characteristics Can Help Improve Service Delivery** (Daniel Harris, Claire Mcloughlin and Leni Wild): [ODI, 2013](#).

¹² Similarly, the willingness of citizens or civil society to be part of local participatory processes will depend on the effectiveness of vertical or intergovernmental mechanisms. Anecdotal evidence suggests that citizens and community leaders may not care to be involved in local planning or oversight activities—for instance, as part of health facility committees or as part of user committees—if local officials have no meaningful discretion to improve frontline services. In these cases, such committee may exist and function on paper only.



**Promoting resilient,
inclusive, sustainable, and
efficient development in a
multilevel public sector**

4. Promoting resilient, inclusive, sustainable and efficient development in a multilevel public sector

As noted at the beginning of this document, the main objective of this overview of decentralization and intergovernmental relations is to enable policy practitioners and policy analysts to systematically identify the strengths and weaknesses of a country's approach(es) to decentralization and to leverage, whenever possible, a country's intergovernmental systems in order to promote resilient, inclusive, sustainable, and efficient development in the context of the multilevel public sector.

In addition to the technical and political economy perspectives provided on the topic in the previous sections, it is useful to address two relevant issues related to the implementation of decentralization reforms in the real world. First, it is important to recognize that the global context within which decentralization and localization reforms are understood is changing quite rapidly. Second, it is important to give thought to the specific political economy dynamics and challenges faced by global development institutions, global foundations and other providers of external development assistance when operating and seeking to promote decentralized development outcomes in a multilevel public sector.

4.1 Decentralization in a changing world

Although the understanding of decentralization has evolved over time, the basics of decentralization have not changed all that much in the past twenty years. However, the global context within which decentralization reforms are pursued has changed significantly in a number of different ways:

Considerable development progress has been made around the world. Many developing, and transition economies have experienced tremendous economic transformation and growth over the past 25 years, evolving from economies relying heavily on the primary sector of the economy, to more productive, diverse, and complex economies. More diverse economic structures and rising productivity require greater and more responsive public sector infrastructure investments, while higher household incomes and a sharp reduction in global poverty have often triggered increased public participation and demand for better public services.

Cities and urbanization. Until 2007, more people lived in rural areas than in cities. By 2050, it is projected that two-thirds of the global population will live in cities, with most of that increase expected to occur in African and Asian countries (UNDESA 2018). Urban areas offer a unique context for decentralization and localization, as they often function

as the engines of national economic growth, while at the same time acting as a space for social mobility and transformation where local self-governance is facilitated, and possibly even encouraged, by the density of population and economic activity. It is often assumed that mayors and city leaders have the power to shape their own affairs. In reality, however, the ingredients for city competitiveness are distributed between various tiers of government and between various entities. This means that mayors and other leaders of competitive cities will need to complement their own “wedge” of decision-making powers in economic development by leveraging other tiers of government and private sector partners to generate outcomes that are more than the sum of their parts (World Bank 2015).

The role of conflict, fragility and increase in authoritarianism. The increase in terrorist activities in the last two decades have had a destabilizing effect in countries around the world and have caused or contributed to fragility and conflicts in numerous other countries. By 2020, the economic and physical insecurity brought about by conflict and violence had shifted the international balance in favor of authoritarianism. This was worsened by the COVID-19 pandemic which ravaged the world from 2020 (Freedom House 2021).

Focus on inclusive (equitable) and sustainable development. The Millennium Development Goals (MDGs) were quite successful at increasing the quantum of development finance and targeting these resources on a number of specific objectives. At the same time, many observers felt that the development impact of the additional resources was limited by the fact that a disproportionate share of the resources was getting stuck at the national level rather than funding improvements in frontline services. In contrast to the MDGs, the 2030 global Agenda for Sustainable Development (the SDGs) actively considers the need to “localize” inclusive and sustainable development by ensuring the transformation of public sector resources into development results.

Recognition of the preeminent role of macro-fiscal stability. A major concern related to (fiscal) decentralization is the fact that a more decentralized public sector could potentially reduce the ability of central finance authorities to ensure macro-fiscal stability. This concern was driven to a large extent by fiscal crises associated with fiscal decentralization in Latin America in the 1980s and 1990s (Ter-Minassian and Jimenez 2011). Macro-fiscal stability is increasingly understood as a foundational requirement for sustainable development success, especially as inflation and unemployment tend to have a disproportionate impact on the poor. As a result, considerable emphasis has been placed in the run-up to decentralization reforms on the preeminent need to pursue decentralization in a way that preserves macro-fiscal stability—for example, as happened in Indonesia and Kenya. Important parts of this effort have been to focus decentralization reforms on expenditure devolution over revenue devolution; the emphasis on subnational fiscal rules to limit subnational borrowing and the associated risks to macro-

fiscal stability (IMF 2020); and efforts to ensure that there is a balance between the function responsibilities and finances devolved, so that the decentralization process is (in aggregate) fiscally neutral and does not result in increasing deficits at the national government level.

Climate adaptation and mitigation. Cities consume over two-thirds of the world's energy and account for more than 70 percent of global CO2 emissions. At the same time, the effects of the changing climate are already experienced by 70 percent of cities worldwide, with 77 percent expected to undergo a dramatic change in climate conditions (CCFLA 2021). Common hazards to cities and local governments include becoming an urban heat island, flooding, landslides, sea level rises, storm surges, tsunamis, wildfires, droughts, earthquakes, and volcanos. Building cities that are green, inclusive, and sustainable should be the foundation of any local and national climate change agenda.

In many countries, the role of international financial institutions and development assistance is changing. As countries move up the economic ladder, the role of international financial institutions and development agencies evolves from primarily serving as a funder of capital infrastructure to acting as champions of public sector efficiency and catalysts for systems transformation.

COVID-19. The global coronavirus pandemic has created a global humanitarian and economic crisis of proportions without precedent in recent times. Local governments and local administrations around the world have been at the front line in responding to the pandemic by: providing emergency and curative health services and other public health services; enforcing compliance with social distancing and public hygiene measures; mitigating the impact of the pandemic on other local public services; or by supporting social and economic relief activities within their local communities. As such, the pandemic has reminded policymakers all around the world that out of all government levels, the local level is closest to home and, in many cases, best positioned to respond to specific challenges. By highlighting the potential value of local governments and other local actors to the people, in many different countries the pandemic is also highlighting the obstacles that stand in the way of local governments performing their functions in an inclusive, effective and responsive manner (Yilmaz and Boex 2021). Research suggests that effective intergovernmental systems and coordination mechanisms and local government capacity are two preconditions for deploying local governments effectively in the fight against pandemics (Yilmaz and Boex 2021).

4.2 Political economy challenges faced by global development agencies and other providers of external development assistance

In addition to understanding the political economy dynamic of domestic actors and stakeholders in the context of decentralization reforms, it is important for development

partners and providers of external development assistance to recognize the political economy forces influence their own actions and interventions. Some of the issues and challenges likely faced by task teams when operating in a multilevel public sector include:

- ***The central government counterparts of global development agencies are not neutral actors.*** With few exceptions, the institutional entry point for international development agencies is the central or national government level—either Ministry of Finance or Ministry of Planning. Whereas in the case of centralized public sector interventions, the central government – the counterpart ministry – is often also the main beneficiary of development assistance, this is not necessarily the case for development projects or programs that aim to strengthen decentralized governance, administration, or service delivery. While there are many examples where central government counterparts have strongly supported development projects that strengthen decentralized systems, there are also a large number of examples where the centralized viewpoints or narrow institutional interests of central ministry counterparts formed an important political economy obstacle in project design and implementation.
- ***The centralizing bias of the international development community.*** There is no doubt that it is easier to design and manage a development project that has a single central government counterpart versus a project that needs to be implemented by dozens or possibly even hundreds of local governments. Given that donor agencies and international financial institutions need to have their primary counterparts at the central government level, a combination of institutional self-interests—by the donor agency as well as their counterparts at the central government level—can bias the implementation of development projects to the central government level (Boex 2010).
- ***Strengthening decentralized systems requires a solid technical understanding of intergovernmental systems as well as political economy incentives faced by subnational stakeholders.*** While global development agency task teams are well-equipped to design and deliver technical interventions, task teams are often not equally well equipped to identify and deal with political economy constraints, which tend to be more prevalent in multilevel public sectors. In fact, in countries where public service delivery responsibilities are devolved to local governments, technical obstacles, such as institutional capacity limitation or inadequate resources, as well as political economy obstacles need to be considered. For instance, a local government’s failure to deliver public services in an efficient, inclusive or accountable manner may

not be caused by technical limitations *per se*, but may find its origins in local political priorities or political economy forces acting on local leaders.¹³

- ***Development partner programs can legitimize or delegitimize certain players.*** Whether intentional or not, the development and implementation of international development partner programs often have important implications for public sector governance. For instance, by focusing their dialogue and resources on the central government level instead of transferring their funds to the local government level through the intergovernmental transfer system, development partners can wittingly or unwittingly alter the balance of power and resources among stakeholders at different levels of the public sector. The situation is complicated further by the fact that international development agencies are often internally fragmented into silos or stove-pipes themselves (typically by sector), and that the bulk of external assistance therefore focuses on sectors and so, by definition, is earmarked. Although a sector program to provide funding to, say, local health facilities may be presented as “governance-neutral” because it by-passes the local government level, by the very fact that the program introduces a new funding stream, the program is likely to have a significant impact (for better or for worse) on the incentives and accountability relationship in the public sector.
- ***Improving the effectiveness of intergovernmental or vertical service delivery systems often requires working across stovepipes at different government levels.*** As suggested by the typology in Section 2, it is often the case that within a country and even within the same sector, there is a messy and simultaneous mix of central implementation, delegation, deconcentration, and devolution happening all at once. This means that efforts to improve the effectiveness of intergovernmental or vertical service delivery systems will often require successful task teams to work across different sectoral or thematic stovepipes, both at the central government level as well as at the subnational level.

4.3 Concluding thoughts

Decentralization is quintessentially a cross-cutting public-sector governance topic that is at the intersection of multiple disciplines including, economics, political science, public administration, and management. It is a broad and complex area of public sector reform encompassing wide-ranging issues from public financial management to human resource management, procurement, and beyond.

¹³ To complicate matters further, different sectoral programs may not be well-positioned to address cross-cutting local government challenges such as weak local financial management.

In the last two decades, while less attention is being paid to decentralized governance by the global development community, there has been growing recognition within the global development community outside the governance stovepipe that there is a need to strengthen multilevel governance and intergovernmental systems in developing and transition countries to make them function more effectively and efficiently in pursuit of the Sustainable Development Goals (SDGs), since most (pro-poor) public services are delivered at the local level, whether by the deconcentrated departments of line ministries, devolved local government authorities, or through other mechanisms.

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