8. What makes decentralization work?

The political economy of decentralization: Implications for approaching reform and empowering local governments

The purpose of this short note is to frame a discussion on how political economy and institutional dynamics tend to shape decentralization reforms and, to a great extent, determine the level of coherence of resultant local government systems and their effectiveness in contributing to local development and the achievement of the MDGs.

1. What is the Significance of Political and Institutional Dynamics for processes of Decentralization reform, the Development of Local Government Systems and their Ability to Contribute to Local Development/MDGs?

Decentralization has been adopted in many developing countries, and it is a major focus of the considerable support that development partners provide for public sector reform. Yet its record is mixed at best in terms of effective implementation. The record is also unclear regarding the realization of many of the reform objectives (such as enabling more efficient service delivery, advancing democratic reform, and promoting economic development and poverty reduction) typically outlined in official policies.

Insufficient correspondence between official policy goals (also supported by some country actors and development partners) and the goals of various political and bureaucratic actors commonly results in a failure to meet stated reform objectives, and produces unintended consequences. The situation is complicated by the internal fragmentation of central governments; the goals and behaviors of the diverse central actors and their relative ability to shape policy often vary considerably. Development partners can influence reforms, but they also face diverse incentives and pursue priorities that may differ from those of government actors or other donors. Their behavior may serve to reinforce conflicts and exacerbate inconsistencies in decentralization reforms.

Substantial attention has been devoted to defining the institutional, fiscal and technical requirements for meeting common normative decentralization objectives. Much less consideration, however, has been given to identifying the political and institutional incentives that drive reform, or to assessing how these incentives shift over time. Shaping decentralization requires appreciating its fundamental paradox:

What motivates the central government to give up powers and resources to subnational governments?

The underlying premise of this session is that systematic analysis and a more nuanced understanding of political economy issues can productively complement the technical diagnostic work and normatively guided actions carried out by governments and development partners as they undertake decentralization reforms and support the development local government systems. A deeper understanding of the motives that drive
politicians and bureaucrats to support or oppose reform and its practical implications will allow policymakers to take them into consideration when designing reform to empower local governments and devising inelegant approaches for its implementation. It is equally important to understand how the incentives of key actors may weaken, strengthen, or shift in response to circumstances that arise after reform begins.

2. What are the primary elements that shape the nature, pace and level of coherence of decentralization reforms and the evolution of a local government system?

At least four major elements of the national and intergovernmental political economy of decentralization are relevant in shaping how reform proceeds and performs.

**Initial Context and Motivation**

Decentralization reforms evolve in many contexts. In some cases, as in the Philippines or Indonesia, they spring from urgent political/economic crises that led to a dramatic turnover in leadership and perceived demand for change. In other cases, decentralization is used to strengthen the legitimacy of the state (Bolivia, Colombia), sometimes in post-conflict environments (Cambodia, Rwanda, and Uganda). Some countries, including Brazil, South Africa, and Mexico, adopted decentralization as part of transition from authoritarian to democratic rule. In still other cases, decentralization, through explicit policy or tolerance of subnational discretion, has been part of a broader market transition or economic development strategy (Vietnam, China).

Understanding the initial conditions under which decentralization arose is a useful starting point for assessing the reasons for pursuing it, their likely implications for the shape and pace of reform, and the potential durability of resulting policies. For example, a country in crisis may decentralize too quickly and run into serious problems later, while reform in a country under little real pressure to decentralize may stall at early stages.

The nature of the system being decentralized is another critical piece of the puzzle. Countries with a long history of authoritarian rule face special challenges in promoting decentralization. Countries emerging from military rule, but with some history of democracy (especially in Latin America), seem to be able to make the transition more successfully. Institutional legacies, including the state structure (federal or unitary) and form of government (parliamentary or presidential), also shape decentralization. Cultural and colonial traditions of authority and administration may condition how reforms proceed, and this is not always recognized in designing normatively-inspired reforms.

**Key Actors and Incentives**

Whatever the starting context, those most responsible for decentralization—elected politicians and national-level bureaucrats—face diverse incentives to pursue, to appear to pursue, or to limit reform. Such incentives typically underlie important partnerships, debates and conflicts about the nature, extent, and pace of decentralization.
At the political level, elected officials, parties, subnational governments, and civil society players, such as unions and business associations, act individually and/or collectively in ways that define how decentralization is initially conceived and implemented. Policies and outcomes are influenced by the relative strength of these actors and the extent to which some have common interests. At the organizational level, multiple government agencies become involved in decentralization with varying levels of interest and influence and diverse incentives, especially during detailed design and implementation.

**Shifting Reform Dynamics**

*Decentralization is a process,* not a one-time act, and the reform path is shaped by how the often-conflicting incentives of different actors are pursued. At the initial design stage, decentralization involves changes in legal frameworks, including executive decrees, new statutes, and constitutional reforms. Even if the framework is strong, however, its provisions may be subverted for political reasons in the detailed design decisions that follow.

In the implementation phase, the transfer of resources and responsibilities often sets in motion political struggles in the state bureaucracy, between and within agencies and across levels of government. These struggles can affect how far and how well implementation proceeds. Once the new division of authority has been detailed and implementation has begun, political dynamics within disparate subnational jurisdictions may powerfully shape the use of new governing prerogatives on the ground.

*Different dimensions of decentralization* can vary in importance at different stages. Administrative, fiscal, and political decentralization can be rolled out in different sequences on the basis of politically motivated strategies, e.g. allowing local elections but limiting local governments’ fiscal powers. Some decentralization reforms specifically or differentially target individual sectors (such as health, education, transport, and water). This can occur due to legitimate conceptual, technical, and pragmatic concerns about appropriate local government functions and autonomy, but it may also reflect powerful political and institutional dynamics that enhance or constrain reform possibilities.

*Changing political and economic conditions,* as well as *emerging empirical evidence* on the performance and unintended consequences of decentralization policies, can alter incentives and the reform trajectory. For example, alleviation of crises or emergence of new ones can change attitudes toward decentralization and lead to modifications in its form and function. Decentralization may not yield benefits quickly, and impatience with delays can lead to calls for modifying reforms. Diverging political incentives facing national and subnational politicians and bureaucrats influence how these actors respond to evidence that reform is not working as planned. Whereas local governments might interpret problems as evidence of the need to provide them with additional resources, national actors may view these same problems as an argument for recentralization.
Role and Incentives of Development Partners

The international development community has played a major role in promoting and supporting decentralization in developing countries, especially those heavily dependent on foreign assistance. Yet development partners themselves face varying incentives, which can at times lead them to act in ways that are not entirely consistent with country policies, with other donors’ programs, or even with their own rhetoric. Individual agencies often have a political need to distinguish the specific roles they play, and while donor competition is not necessarily undesirable, fragmented donor behavior can hinder even the best-intentioned reforms.

Some development partners are large and complex, with multiple departments that focus on different aspects of development, service delivery, and institutional reform, all of which affect decentralization. These departments may have different objectives and incentives that further complicate the role of donors in decentralization reform.

3. Operational Implications

More thorough consideration of the political and institutional context and dynamics underlying reform in a given country (and the endogenous role that development partners themselves often play) can provide a useful complement to the conventional technical work often conducted by decentralization policymakers and development partners. By broadening conventional analysis to incorporate these issues, much can be learned about the preferences, attitudes and likely behaviors of different political and bureaucratic actors in defining and implementing decentralization.

This type of analytical approach will certainly not erase the difficult problems caused by these complex dynamics, but it can help reform-minded nationals and interested development partners providing decentralization support to conceive and implement more realistic and sustainable reforms, even if they are less ambitious than or different from those originally intended. More carefully defined and pragmatic reforms should, in turn, improve the pursuit of national and local development goals and enhance aid effectiveness.

Discussion Questions:

Many questions about the value of and appropriate approach to understanding the political economy of decentralization could be posed, but the following merit special consideration:

1. How can a nuanced understanding of the political and institutional dynamics of decentralization be productively used to help shape decentralization in challenging environments, where some of the very actors (internal and external) engaged in such dynamics have important roles in defining, influencing or managing the implementation of such reforms and hold the keys to empowering local governments?
2. Which actors (governmental and nongovernmental, internal and external) could be appropriately and productively involved in conducting pragmatic political economy analysis of decentralization? What type of process should they be expected to follow? How could their work be reviewed by and disseminated to a broader base of interested/affected parties?

3. Given the frequent shifts in governments, civil servants, and development partner staff, and the effect this can have on decentralization policy, how can political economy analysis reveal feasible reforms that can be somewhat insulated from such turnover?

4. If political economy analysis reveals certain powerful actors who do not support decentralization when it is an official policy, what options might there be for advancing reforms? What role can internal and external actors who wish to promote reforms (even in such adverse environments) play in developing concrete steps to help overcome existing constraints and tackle difficult challenges?