

CONCEPT PAPER

Decentralisation processes at a crossroads: State of affairs and perspectives

Introduction

Decentralisation, as a formula for territorial organisation, has not been subjected to much scrutiny during its first period of growth. Recently, however, some criticism has begun to arise which opens up a new debate on the nature of the concept itself, and regarding the distribution of power, competences and resources that is involved in carrying out this process. Some of the topical issues surrounding this concept are the link between decentralisation and development and the impact of the economic crisis on local governments.

In this respect, this document gathers together a series of reflections on the concept of decentralisation with the aim of contributing to the debate surrounding this process, its potential benefits and possible risks. Taking the conclusions of **UCLG's First Global Report on Decentralisation and Local Democracy** as a starting point, this document poses a series of questions and offers possible answers, which may be subject to discussion during the meeting. From among these questions we would highlight the definition of the concept of decentralisation, the difficulties involved in implementing it, and the advantages and risks of decentralisation processes. Likewise, within the framework of political debate we will deal with topical questions such as the decentralisation-development-democracy link and the impact of the economic crisis on local governments.

What do we understand by decentralisation?

The distribution of power and the arguments relating to it are issues as old as politics itself. However, it was not until the appearance of the modern nation-state, in the 17th century, that the concept of division of power as we understand it today first arose.

The origins of decentralisation, now considered as a formula for territorial organisation, can be traced back to debates about governmental organisation. The first efforts that gave rise to decentralisation movements mainly stemmed from **endogenous imperatives** (or internal pressures), such as ethnic and religious tensions, economic crises, demands from minorities for participation and representation and pressure to improve territorial management. **Exogenous factors**, such as the emergence of global networks which limit the powers of central governments and encourage new actors to participate in a globalised international arena, come into play later on.

Going beyond the aforementioned **relationship between globalisation and decentralisation** (dubbed by some experts as "glocalisation"), the spread of decentralisation could also be linked to the so-called "third wave of democratisation", during which, from 1970 onwards, more than 30 countries underwent decentralisation processes associated with the process of democratisation.

Finally, as another factor in the spread of decentralisation, we should mention the promotion activity carried out by **international organisations**. Institutions such as the World Bank and the European Union advocate decentralisation, establishing decentralising measures in their programmes and requiring that certain reforms be made by those seeking to become members.

Decentralisation, which has steadily been growing as governments have increased their powers, is currently a concept about which most experts are in general agreement.

However, this agreement does not mean that complete uniformity exists when trying to define the term. The **UCLG Decentralisation and Local Self-Government Committee defines decentralisation as:**

Process of state reorganization and of gradual transfer of competences originally owned by the central government —accompanied by the corresponding resources— towards other spheres of government (federal states, regional or provincial governments or municipalities).¹

We also must not forget that there are different types and forms of decentralisation², which we outline below:

Types of decentralisation:

- **Political Decentralisation:** delegation of political power, authority and resources towards subnational government levels, representative of and accountable to the local population that empowered them.
- **Administrative Decentralisation:** involves the transfer, from the central state towards its local administrative extensions or local government authorities, of certain capacities in planning and managing concrete affairs without losing its fundamental accountability to the central government.
- **Fiscal Decentralisation:** involves the redistribution of resources from the central government towards subnational government levels and of the necessary decision-making capacities to use these resources, in a way that establishes effective and transparent financial management.

Forms of decentralisation:

- **Devolution:** is a type of political decentralisation, referring to the full transfer of responsibility, decision-making, resources and revenue generation to a local level public authority that is autonomous and fully independent of the devolving authority and that has clear geographic and legally recognised geographical boundaries within which to exercise its authority and perform its public functions.
- **Delegation:** is a type of administrative decentralisation, referring to the redistribution of administrative responsibilities towards government units or agencies that are not necessary local branches of central authority, always maintaining accountability to the central state.
- **Deconcentration:** the Decentralisation and Local Self-Government Committee considers that deconcentration is not a way of decentralising because it is only a territorial dispersion of central power by transferring specific administrative responsibilities of the central government towards local public structures, always maintaining the responsibility of the local government units towards the central government.

What are the difficulties of implementation?

During the decentralisation process, the greatest difficulty lies in choosing the formula that will be applied to **implementing the new forms of territorial management**.

In this respect, we should mention that there are people in favour of gradual processes of decentralisation (based on the gradual devolution of powers) and those who defend big bang-type

¹ The definition proposed by the UCLG Decentralisation and Local Self-Government Committee, as well as other definitions given on this concept, are available in the GLOSSARY on its website (www.cities-localgovernments.org/committees/DAL).

² *Idem*

formulas (based on the introduction of big changes in order to avoid the appearance of dynamics that are counteractive to decentralisation during the process).³

In either case, it seems appropriate to apply the metaphor used by some authors who agree with the difficulty of designing and implementing decentralisation processes, according to which the process of decentralisation is like making a *soufflé*, i.e., in order to achieve the best results, all the ingredients must be present in the right amounts and prepared in the correct way. This reflection involves recognising the specific local and regional nature of every one of these processes.⁴

Part of the difficulty of implementation also lies in the large number of actors involved in decentralisation processes. Top-down formulas cannot work due to the lack of contact with the powers closest to the population and citizens themselves. The participation of civil society and the private sector are thus key elements when aiming for the correct implementation of these types of processes. Decentralisation processes are—by definition—collaboration processes. In other words, collaboration between the prince, the merchant and the citizen is necessary.⁵

Another of the main obstacles is that it is not possible to measure the success of decentralisation policies; there are various possible combinations in the design and implementation of decentralisation processes which makes it difficult to carry out empirical research into the phenomenon.

In relation to the **objectives** of decentralisation processes, we must not forget that they are processes and are not a goal in themselves. The fundamental principle that these processes is based upon is the belief that decision-making and implementing those decisions are more efficient when carried out in closer proximity to citizens (subsidiarity principle) in order to improve territorial management.

What advantages are there and what are the potential risks?

As we have mentioned earlier, there are no magic formulas or universal recipes that can guarantee the success of a decentralisation process. Nevertheless, a series of possible benefits and potential risks involved in decentralisation have been confirmed.

The benefits that have been identified are the following:

1. **Administrative efficiency.** Despite it being very difficult to find the ideal scale for providing each public service, it is important to try and assign each level of government the tasks that it can carry out most efficiently (subsidiarity principle). And, in spite of the fact that it may not be easy to identify which services should be designed and implemented at local and regional levels⁶, it is unquestionable that in certain cases this is highly recommendable.
2. **Control, balance and transparency.** The existence of more public powers promotes stability, given that when policies are being drawn up there are a greater number of participants involved with the right to express their opinion. The *checks and balances* theories defended by Tocqueville could also occur in a vertical way, due to the fact that the control exercised by some powers over others increases transparency.
3. **Participation and democracy.** The creation of new political spaces allows new groups to be included in the political arena, which in turn increases democracy and reinforces the state's legitimacy.

³ Shah, Anwar, and Theresa Thompson, *Implementing decentralized local governance: a treacherous road with potholes, detours and road closures*, policy research working paper 3353, World Bank, 2004.

⁴ Sharma, Chanchal Kumar, "Why decentralization? The puzzle of causation", *Synthesis*, vol. 3 n. 1, 2005.

⁵ Rodden, Jonathan, "Reviving Leviathan: Fiscal Federalism and the Growth of Government", *International Organization*, Vol. 57, No. 4 (Autumn, 2003).

⁶ Cheema, G. Shabbir, and Dennis A. Rondinelli, editors, *Decentralizing governance: emerging concepts and practices*, Ash Institute for Democratic Governance and Innovation, John F. Kennedy School of Government, Harvard University, 2007.

4. **Distribution of power and stability.** Decentralisation permits the distribution of power among different sectors of society in a similar way to that which takes place in the territory. This promotes the stability of the system owing to the inclusion of mechanisms that control the redistribution of power in a democratic way.⁷
5. **Economic development.** The implementation of decentralisation processes promotes balanced territorial development owing to autonomous management. In an international context characterised by economic and cultural globalisation, it is local and regional governments' flexibility and dynamism which allow them to design their own territorial development strategies.⁸
6. **Matching preferences.** Local and regional governments have more information about the needs of their citizens, which means that they are able to identify those needs and decide on the order of priority that should be implemented. Therefore, the size of the countries and the level of decentralisation will depend on the relationship between economies of scale (which in principle favour the existence of large, central states) and the heterogeneity of the population and its needs (which favours the existence of small states and which encourages decentralisation).⁹
7. **Competition and dynamism.** In democratic environments, competition among different levels of government avoids the creation of unnecessary taxes and reduces negative actions for the population. Well managed territories are more dynamic and attract the population; this is what is known as *voting with your feet*.
8. **Social cohesion.** Closely linked to the previous point, the provision of public services at a level closer to citizens favours social cohesion. In recent years, the justification for decentralisation processes has shifted from being based on questions of identity to focusing on making economic and social improvements.¹⁰
9. **Laboratories of innovation and the creation of leaders.** Small constituencies are laboratories for political experimentation and they encourage innovation. It is much simpler to apply new formulas on a small scale and, once their success has been confirmed, go on to apply them to larger territories. Furthermore, local and regional politics are valuable arenas for giving rise to talented individuals in the area of territorial management.
10. **Promoting peace.** Decentralisation processes are a mechanism for defusing ethnic, political and cultural conflicts by guaranteeing political participation, defending minorities and effectively distributing resources.¹¹

However, to avoid undesired effects, it is important to take into account the possible risks involved in implementing a decentralisation process. These are:

1. **Administrative slowness.** Increasing the number of government levels in an uncontrolled way may result in administrative processes becoming slower, bringing with it a rise in the economic costs of decentralisation (*agency costs*).¹²

⁷ Monteux, Camille A. "Decentralisation: The New Delusion of Ethnic Conflict Regulation", *International Journal on Multicultural Societies*, vol. 8, no. 2, UNESCO, 2006.

⁸ Binder, Juergen K. et al., *Towards an EU approach to democratic local governance, decentralisation and territorial development*, European Commission, Background paper 2007/147439, Brussels, 2007.

⁹ Alberto Alesina and Enrico Spolaore, *The size of nations*, MIT Press, Cambridge, Massachusetts, 2003.

¹⁰ Rodríguez-Pose, Andrés, and Nicholas Gill, "On the 'economic dividend' of devolution", *Regional Studies*, n. 39, 2005, 405-420

¹¹ Schou, Arild and Marit Haug, "Decentralization in conflict and post-conflict situations" Norwegian Institute for Urban and Regional Research, Oslo, 2005.

¹² Rodríguez-Pose, Andrés, and Adala Bwire, *The economic (in)efficiency of devolution*, working paper, Department of Geography and Environment, London School of Economics, 2003

2. **Economic inefficiency.** If the different levels of government do not coordinate their actions, vertical competition may result in more taxes as each level seeks to maximise its revenue.¹³
3. **Lack of coordination.** Shared responsibility for public assets may imply the appearance of *free riders*, i.e., government levels that take advantage of the lack of control to maximise their benefits without contributing to the creation of global wealth.
4. **Local tyrannies and corruption.** Corruption is a real problem at all levels of government. The division of power can result in the rise of local or regional tyrannies which monopolise the political arena with their élite, with the consequent negative effects for the good functioning of the government.¹⁴
5. **Increase in tensions.** The creation of local or regional political parties can give rise to centrifugal pressures and embroil the state's organisational structure in separatist tensions. Particularly in weak states, decentralisation can cause conflicts at the very heart of society.¹⁵
6. **Separatism and division.** Some movements may use decentralisation processes as a platform for achieving independence, thereby reinforcing and legitimising ethnic divisions and, as a consequence, producing instability.¹⁶
7. **Encouraging territorial inequality.** Competition between territories can result in negative effects or give rise to situations which have negative repercussions (for example, in cases of unequal distribution of natural resources or in the attraction of highly contaminating industries that have negative effects on the territory itself or its neighbouring territories).

Frequently asked topical questions

1. Have the benefits of decentralisation been empirically demonstrated?

Given the difficulty of measuring the impact of decentralisation and due to the interaction of a large number of players as part of its implementation, it is very difficult to empirically demonstrate the impact of decentralisation processes. Furthermore, decentralisation processes are not produced in a vacuum; there are a multitude of factors in play. Despite this, there are some studies that demonstrate the link between decentralisation and development.

Some critics maintain that a greater number of administration levels brings with it greater expense. However, the existence of more levels of administration does not necessarily mean an increase in public expenditure as, for example, it does not always involve an increase in the number of personnel. In addition, having a level of public administration that is closer to the territory boosts the chances of improving the management of the territory. In many cases decentralisation processes promote territorial development and, therefore, the benefit of having more administrative levels may outweigh the cost involved.

In spite of all this, we cannot overlook the fact that economic arguments are not the only ones that come into play when initiating decentralisation processes; political arguments usually play an important role, especially in countries in which some minority group is seeking independence. Sometimes decentralisation is a step towards independence (*slippery slope*), although not exclusively. Thus, it is important to bear in mind that the form a state currently has is the result of a historical, political and

¹³ Berkowitz, Daniel M and Wei Li. "Decentralization in Transition Economies: A Tragedy of the Commons?" *Journal of Public Economics* 76, 2000.

¹⁴ Siegel, Joseph and Patrick O'Mahony "Assessing the Merits of Decentralization as a Conflict Mitigation Strategy" USAID Decentralization and Democratic Local Governance Programming Handbook, 2007.

¹⁵ Brancati, Dawn, "Decentralization: Fueling the Fire or Dampening the Flames of Ethnic Conflict and Secessionism?" *International Organization*, 60, Summer 2006.

¹⁶ Monteux, Camille A. "Decentralisation: The New Delusion of Ethnic Conflict Regulation", *International Journal on Multicultural Societies*, vol. 8, no.2, UNESCO, 2006.

cultural evolution and that, as societies advance, they could decide to employ new formulas with which to organise themselves. According to a large number of experts, the size of the countries and their level of decentralisation depends on the relationship between economies of scale (which in principle favour the existence of large, centralised states) and the heterogeneity of the population and its needs (which favours the existence of small states and encourages decentralisation).¹⁷

2. Is it only wealthy and structured countries that can decentralise?

Implementing decentralisation processes is complicated in both developed countries and developing countries. It is a fact that the most developed countries tend to be the most decentralised. Nevertheless, it would be incorrect to state that only wealthy and structured countries can become decentralised. It is evident that the existence of solid, capable governmental structures with sufficient resources to initiate decentralisation policies provides a greater probability of success, but this should not limit efforts to improve the situation of other countries.

Promoting decentralisation as an instrument for improving the living conditions of the population is one of the mainstays of the work carried out by the UCLG Decentralisation and Local Self-Government Committee. There are many decentralised cooperation initiatives whose objective is the institutional reinforcement of local governments and, in fact, if we review the potentially positive effects of decentralisation, developing countries could experience outstanding advances.

3. Does decentralisation bring increased democracy?

An effective decentralisation process involves greater participation by civil society and non-governmental institutions in the definition and creation of local public policies and, therefore, means an increase in democracy. Furthermore, as Ribot states, the local population will turn to their respective local authorities when they believe that these authorities are truly able to resolve the issues being raised.¹⁸ In other words, the existence of a local government that has acquired greater powers and resources thanks to a decentralisation process also permits an increase in democracy, owing to the fact that it usually presents itself to its citizens as a highly empowered government, thus encouraging the participation of its citizens in public matters.

However, there can only be increased democracy if the local authority involved in the process genuinely represents the interests of the local population and permits all its citizens to participate in public matters, without excluding certain people for ethnic, linguistic or other reasons. We must remember that decentralising a country deprived of local democracy could take decades or even centuries. Thus, increased democracy in these cases would be absolutely incomplete and very gradual. Finally, in order for the decentralisation process to bring about increased democracy, the same process must have enjoyed the maximum legitimacy possible during its realisation and implementation.

4. Is there a relationship between decentralisation and the Human Development Index?

The concept of human development is not based exclusively on economic factors. The paradigm of human development is basically centred on need for people to have the power to make decisions and act on them and to have effective opportunities to exercise these capabilities. In addition, the theoretical foundation of the human development model is built upon the relationship between efficiency, equity and empowerment, understood as expanding people's decision-making powers. It is this relationship between human development and empowerment which requires expanding citizens'

¹⁷ A. Alesina and E. Spolaore, *The Size of Nations*, MIT Press, Cambridge, Massachusetts, 2003.

¹⁸ Jesse Ribot, *Democratic Decentralization of Natural Resources: Institutionalizing Popular Participation*, Washington DC, World Resources Institute, 2002

decision-making sphere through the recognition of territorial autonomy (territorial reorganisation and strengthening the administrative, financial and organisational powers of local governments) or direct empowerment and the promotion of instruments of participation.

The relationship between decentralisation and the Human Development Index is indisputable, as decentralisation is a factor which, if it is effective and real, can clearly contribute to expanding the abovementioned citizens' decision-making powers, as it strengthens and extends the powers of local governments as public administration bodies that are in closer proximity to citizens.

5. In situations of economic crisis, is it wise to decentralise?

In situations of economic or financial crisis such as the current one, we often see how other issues are prioritised and decentralisation is relegated to the background, turning it into just another issue buried within the greater framework of the modernisation of the public sector. Other common phenomena in moments of world financial crisis are an increase in the state's temptation to centralise which puts basically endogenous local development in danger and the unleashing of serious negative effects on local economies (although a crisis is not the global explanation for all of a territory's economic problems).

Nevertheless, we must remember that local governments can contribute to the gradual solution of an economic crisis; using their own sectorial strategies and policies, coordinating local powers with regards to production and management, drawing up economic policies that create employment, better and more efficient use of resources and generating a climate of social stability which attracts private investment, can all contribute effectively to increasing economic stability and development.

Thus, in periods in which the tendency leans towards centralisation and in those in which decentralisation is not considered a priority, central governments should remember that local authorities can contribute to improving the country's economic situation. For this reason, in situations of economic crisis it is not advisable to stop decentralisation processes in order that local governments can have the capacity and, above all, the resources necessary to face the effects of the crisis with autonomy and thereby contribute, from a local position, to resolving it on a general level.

Conclusions

From the UCLG Decentralisation and Local Self-Government Committee, this working document aims to encourage debate on the evolution of decentralisation processes, inviting all the actors involved to participate freely in a joint reflection on the territorial design of our states. To conclude, we highlight some of the **basic points** dealt with in this concept paper:

1. Decentralisation responds to the needs of the territory to organise itself administratively and politically with the aim of offering its citizens high quality services.
2. There is no universal formula which can guarantee the success of decentralisation processes.
3. Decentralisation processes can have positive effects, but their implementation is not exempt from risks.
4. There is a clear relationship between decentralisation, democracy and development; however, there is a need for in-depth studies which confirm this relationship and provide us a deeper understanding of these issues.
5. Local governments must continue their lobbying efforts to have their priorities taken into account. For this reason, it is necessary to push forward with initiatives such as the Ibero-American Charter of Local Self-Government.
6. Finally, we send a warning message about the decline in decentralisation processes seen in some countries with arguments based on situations of economic and political crisis.