

# The impact of decentralisation on public enterprises in Africa

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## Key words

Decentralisation, centralisation, democratic governance, accountability, transparency, public enterprises,

## Abstract

*The strengthening of democratic governance institutions is a key factor for any development initiative. With these institutions in place, accountability becomes a yardstick to achieve greater results. This article therefore set out to explore the impact that decentralisation has on Public Enterprises. Decentralisation being an instrument of good governance, the article want to investigate if it applicability on state own enterprises could stimulate economic development. A policy of decentralisation could be considered as an important tool for economic development if the process is adequately implemented. Public enterprises were put in place in many countries to contribute to social development. However, past studies have shown that, public enterprises have not performed well over the past fifty year or so. Many failed because of lack of transparency and accountability. The central question around the thesis is why these public enterprises did not achieve the required results for which they created and what is needed for corrective actions. The article concludes by proposing that, In order to ensure sustainability and economic expediency, it is important to consider decentralisation as a condition for public enterprises to achieve developmental results. The paper is divided into five major parts: The first part introduces the topic, the second part argues about the rationale of decentralisation for the sustainability of public enterprises*

## 1. Introduction

The centralisation of powers in most African countries has not being good enough for economic development in Africa. Many Heads of State in Africa who came to power after independence in the late 50s and early 60s spent over twenty five years in office ignoring the basic principles of democracy that require transparency and accountability. Democratic governance institutions were completely absent and this had a negative impact in the functioning of the state apparatus. This article therefore argues that, the absence of credible institutions is at the centre of the failure of state own enterprises to fulfill the mandate for which they were created. State Own Enterprises (SOEs) in many countries were created to stimulate economic development. Rondinelli (2005) argued that in many developing countries, SOEs have lost their efficacy as instruments for economic and social development for a variety of reasons: because governments never infused them with strong developmental missions or because they used them for purposes that were not directly related to economic and social development, or because the inherent limitations of state ownership render public enterprises ineffective. With the above in mind, this article therefore is of the view that lack of leadership and maladministration may be other factors at the centre of failure for public enterprises to perform and achieve the required results.

Going forward, as mentioned earlier, the strengthening of democratic governance institutions is a key factor for any development initiative. With these institutions in place, accountability becomes a yardstick to achieve greater results. This article therefore set out to explore why so many State Owned Enterprises (SOEs) failed to achieve the mandate for which they were created and the impact that decentralisation may have on Public Enterprises.

Decentralisation being an instrument of good governance, the article seeks to investigate if its application on SOEs could stimulate economic development. A policy of decentralisation could be considered as an important tool for economic development if the process is adequately implemented.

## 2. Definition of Key Concepts

Decentralisation is a very useful also a very complex concept to define. Bray (1985) argues that, decentralisation covers a wide range of processes and structures. However while it is apparent that decentralisation is a complex process, various authors such as Work (2002), have proposed to give meaning to decentralisation. Work (2002) defines decentralisation as the transfer of responsibility for planning, management and resource raising and allocation from the central government and its agencies to lower levels of government. This definition originates from the understanding that decentralisation has a development agenda alongside the renewed global emphasis on governance and human development.

Bray (1985) defines decentralisation as the transfer of decision making powers from higher levels in the official hierarchy to lower levels. Lane and Murray (1985) view decentralisation as re-assigning responsibility and corresponding decision authority for specific functions from higher to lower levels of government and organisational units. McGinn and Welsh (1999) views it as a shift in the location of those who govern, a transfer of authority from those in one location or level of organisation to those in another level.

Lane and Murray (1985) as well as McGinn and Welsh (1999) argue that decentralisation is a continuation of what was being done by somebody at a higher level, but now done by somebody at a lower level. However, the basic definition of decentralisation in this study is considered as the transfer of power, responsibility and tasks from the higher to a lower level within an organisation. The variety of definitions on decentralisation originates from the complexity of the exogenous and endogenous variables which are used to define this phenomenon.

Administrative decentralisation has many facets because it deals with changes in the way local systems go about making policies, generating revenue, spending funds, training employees, designing development programmes (Dyer and Rose 2005). According to Dyer and Rose (2005), stakeholders rarely make distinctions between different types of decentralisation and do not often appreciate the consequences associated with each type. It is important therefore to clarify the type of authority and responsibility to be shifted as well as how it is to be done.

Naidoo (2003) points out that decentralisation takes many forms, depending on the level of government to which decisions are devolved and the kind of decisions moved to these other levels of government and the rationale behind it. Reddy (1996) says decentralisation is complex because it has different meanings and refers to different types and reforms of decentralised management and government system with different policy aims and strategies. Different forms of decentralisation have different characteristics, policy implications and different conditions of success. Decentralisation can be political, administrative and fiscal.

Political decentralisation, as described by Work (2002) and Lauglo (1995), refers to the devolution of political power and authority to sub-national levels of government, usually by election. However, when there is transfer by law and other formal actions, of responsibility, resources, and accountability, this is viewed as devolution (Smith, 1985); (Adamolekun, 1999). Furthermore, devolution, as defined by Dyer and Rose (2005), refers to the power formally held at sub-national level, where local decision makers do not need to seek higher level approval for their action. According to Work (2002) and Lauglo (1995), administrative decentralisation refers to the transfer of decision making authority, resources and responsibilities for the delivery of

selected number of public services from central government to other levels of government agencies.

Oluwu (2004) argues that, according to conventional definitions, when responsibility or authority is transferred, but not resources or local accountability, this is referred to as de-concentration. Equally, Dyer and Rose (2005:) describe de-concentration and delegation of authority, as involving the shifting of management responsibilities from the center to the lower level, but the center still retains the overall control of powers. When responsibility, authority and resources are transferred, but accountability still resides in the centre, there is delegation. This is equally confirm by Dyer and Rose (2005) who argue that delegation involves leaving a degree of decision making to the lower level but the delegated system still rests on the central authority where the power can be withdrawn.

Fiscal decentralisation refers to authority over budget and resource allocated to the local levels of government (Work 2002). With the problems that Cameroon is facing through the delegation of powers from the centre, this study argues that devolution could be a better form of decentralisation because it facilitates the transfer by laws and other formal actions, of responsibility, resources, and accountability. Olowu & Wunsch (2004) support the above declaration and argued that, only devolution can be viewed as a good form of decentralisation because it creates an efficient and reliable administration, intensifies and improves local development, better ensures the rights of the local population to have a voice in government, and better protects minorities. From the above definitions , it is clear that, decentralisation is viewed as a policy that promotes transparency and good governance in order to create an environment in which all citizens could benefit from basic needs such as water and electricity. Its implication on SOEs will surely put more pressure on decision-makers to use these SOEs effectively for the benefit of all.

### **3. Justification for decentralisation in this study**

Decentralisation policies form part of the nucleus that promotes transparency and accountability in other to support development at local level. Decentralisation policy is more encouraged in public services because, past studies have convincingly demonstrated that rigid centralisation of powers is not good for local economic development as it contributes to corruption and other maladministration. This is perhaps the reason why SOEs in Africa are unable to drive economic development because many of them are used by politicians for personal interests. The centralisation of powers in most African countries leads to mismanagement of many SOEs. This maladministration by governments failed national economies in Africa, as a result many are exposed to coup d'état and involved in civil wars. This is why structural adjustment programmes were introduced in the 1980s by international donor's agencies in African governments and elsewhere in order to introduce reforms in public sector management. Among other policies attached to these reforms initiatives, decentralisation policy was considered as the one that can assist citizens to hold governments accountable and create conducive environments where SOEs could be managed effectively and allow them to play a developmental role.

The origin of decentralisation is determined by the context in which it takes place. In Africa, specifically after many countries became independents in the 50s and 60s, many heads of state enjoyed the centralisation of powers until the late 1980s, when it was justified by many studies that, the centralisation of powers was not good enough for socio-economic development. Alternative approaches were sought to place Africa in the path of socio-economic development. Among many, approaches, decentralisation policy argues that total elimination of centralised decision-making stimulate the effectiveness of public institutions as well as public enterprises.

The studies further argue that, decentralisation is the foundation for economic development as demonstrated by Eskeland and Filmer (2002) who, using a cross section data from Argentine schools found that decentralisation education led to improvement in school achievement scores. Faguet (2001) also found that decentralisation in Bolivia helped improve consistency of public services with local preferences and quality and access of social services. Huther and Shah (1997) using cross-section and time series data for a large number of countries find that decentralisation contributed to improve delivery of public goods provision.

The above studies are therefore of the view that, decentralisation is an important element for local economic development which is why this study considers decentralisation as a condition for SOEs to achieve social development in a sustainable manner. However, this study argues that, the state should put in place democratic instruments for a better implementation of decentralisation policy.

Eyoh and Stren (2006), argued that, political and administrative decentralisation is important for the promotion of local development. According to them, decentralisation has operated at many different levels and in different ways in particular local contextual situations. However, the relationship between the two tends to be unclear. Scholars suggest that much depends on the unique circumstances in individual situations (Oyugi, 2000).

#### **4. Discussions**

The debates in Development and public administration studies have provided different meaning with regards to concept related to decentralisation. For instance, concepts such as delegation, de-concentration and devolution are associated with decentralisation. Decentralisation is viewed as the transfer of powers and resources from the centre to the lower level government in order to plan, make decisions and manage resources for efficient and effective service delivery.

This study strongly argues that decentralisation is indeed a very useful policy that if comprehensive applied, could ignite socio-economic development. Most corrupted governments in Africa are resisting the transfer of powers and resources from the centre to the lower level of governments because they might not longer be in a position of using state resources and specifically SOEs in order to satisfy personal interests. If decentralisation is to be used as a tool to strengthen SOEs, the code of ethic by civil servants should be a condition attached to their evaluation.

A number of sanctions should also be linked to any form of corruption initiated by any person who occupies public offices. SOEs should be created and serve the purposes for which they were created. The initial rationale for the existence of SOEs is to contribute to socio-economic development. Those who manage these SOEs should be exposed and face to full might of the law if found guilty of corruption and mismanagement. Corruption is a strong barrier to any development initiative; it destroys public savings and impedes the constructions of sustainable infrastructures that are important in attracting local and international investors.

The involvement of citizens in development planning and implementation enables the formulation of realistic plans that are in line with local circumstances and conditions. Administratively, Decentralisation is considered as a key strategy that provides solutions to overloaded and over-centralised agencies (Olowu 1994; Pillay 2009). The decongestion of the workload at the centre promotes cost-effectiveness and greater coordination and efficiency in public resource utilisation, service delivery and local development. For instance, by giving local SOEs the power to make some decisions without constantly referring to the top levels, delays

are minimised and responsiveness in development or project management is enhanced since decisions are flexible and adjusted to respond to circumstances on the ground.

Although a wide range of political, administrative and socio-economic merits are attributed to decentralisation and participatory approaches, a number of scholars have raised criticisms relating to their technical, theoretical and conceptual limitations (Cook and Kothari 2001; Smith 1985). Smith (1985) states that decentralisation appears to be parochial and separatist as it threatens the unity of the general will, reinforces narrow sectional interests especially and encourages development inequalities, among others, due to its emphasis on local autonomy. There are a number of critiques relating to the quality, validity, ethics and operations of participatory approaches. These approaches to development are methodologically considered to be parochial (Cook and Kothari 2001). For instance, the current study argues that participatory strategies generate poor standards and practice and lead to the abuse or exploitation of the people involved. Lemarchand (1998) argues that despite claims that participatory approaches to local development improve efficiency and effectiveness, and promote processes of democratisation and empowerment; there is little evidence about the effectiveness of participation in ensuring sustainable development and material improvement among poor and marginalised people.

There is debate over a number of issues including the use terminology like 'community participation', the objective of participation as to whether it is a means or an end, and the applicability and the appropriateness of the techniques and tools (Cook and Kothari 2001). For instance, it is argued that the term 'community' masks power relations, biases in interests and needs based on ethnicity, age and class. It is also suggested that, in practice, participatory approaches simply mask continued centralisation in the name of decentralisation.

## 5. Conclusion

Decentralisation may take various forms, devolution, de-concentration and the delegation of powers. Devolution is the form of decentralisation that involves participation in managerial decision-making. In this way, citizens hold government accountable. Many countries in Africa have adopted the policy of decentralisation but have not fully implemented this policy. The reasons raised by some politicians are related to the fact that, the country is not ready to fully implement decentralisation policy because of lack of capacity and resources. But this argument is strongly opposed by the proponents of decentralisation who convincingly argue that, government in power resist the implementation of decentralisation policies because they are not ready to transfer power and resources to local authorities stimulating along the process corruption and maladministration. This is why corruption in most cases destroys SOEs in African countries and exposes them to become less efficient in driving economic development.

The implementation of decentralisation policies is viewed as means of promoting citizen participation through mechanisms that encourage transparency and accountability. Devolution therefore which encourages citizen participation contributes to the provision of sustainable infrastructure and amenities in the country and support municipalities in transforming local economic development. SOEs should be created to stimulate economic development through a number of projects. Government should encourage community-based and progressive approaches that link profitability to reduce poverty.

SOEs could contribute to economic development, if good governance is effectively applied. They should be managed with good code of ethics free of corruption and maladministration. Any mismanagement should be sanctioned by the law. SOEs should be managed by those who have the capacity; meritocracy should be promoted rather than recruiting individuals who lack the necessary knowledge to manage public office. The auditor



general should see into that, all SOEs are properly audited and assess whether they existence is useful for the country and advise accordingly. SOEs that are costly to a government could be privatised for reform purpose.

Finally decentralisation policies should assist in managing conflict by proposing measures that could help reduced poverty through SOEs. In development policies debates, Gordon and Hartmann (2008) argue that most policy-makers would argue that successful socio-economic development and democracy are the best way to prevent crisis and solve violent conflict. They further argue that by contributing to such aim, decentralisation can also contribute to the management of conflicts within established SOEs.

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