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International Experiences with Decentralisation

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International Experiences with Decentralisation

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In 1992, the Government of India passed the 73rd and 74th amendments to adopt a decentralised model of governance. The *Panchayat Briefs* series examines the impact of these reforms in the context of new research on decentralisation in India.

Vol. 1 No.3

The **third brief** in this series analyses the structure and impact of decentralisation in three countries – Bolivia, Switzerland and Uganda.

Other Briefs in this Volume

No. 1: Decentralisation – The Path to Inclusive Governance?

No. 2: Administrative Decentralisation in India – The 3Fs.

Summary

- *Decentralisation is a global trend with 80% of developing countries experimenting with some form of decentralisation.*

- ***Bolivia**: Decentralisation reforms in 1994 and 1995 expanded the scale of municipal government. 20% of the national budget was transferred directly to municipalities. Public investment in municipalities increased from 0.7 to 12%. Decentralization resulted in a shift in the distribution of public sector expenditure. Municipalities channelled new resources to the neediest areas, with poor municipalities investing up to 79% in high priority sectors such as health and education.*

- ***Switzerland:** The Swiss Federation has a three tiered system of government where responsibilities are shared between communes (local), cantons, (intermediate) and the confederation (national). Communes and cantons have strong fiscal powers with 77% of canton revenues and 84% of commune revenues generated from own revenues. Cantons have independent control over their budgets, financial resources and also have taxation powers.*

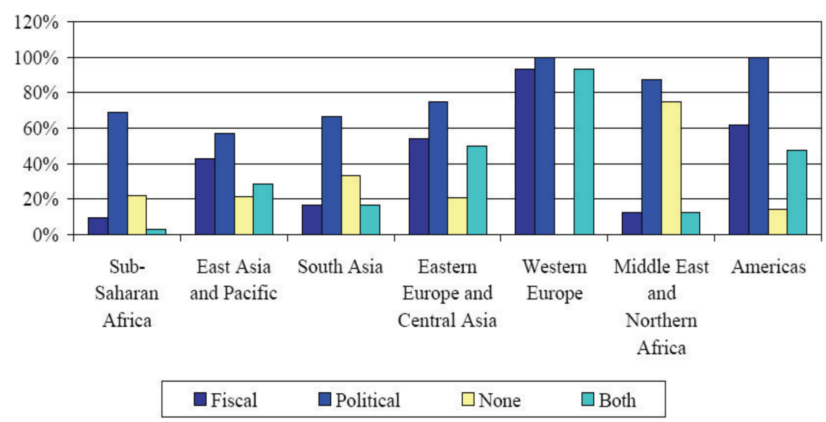
- ***Uganda**: Decentralisation reforms were introduced in the 1990s making local governments responsible for delivering local goods such as education, health, and water services. Though the reforms were extensive, the lack of adequate fiscal decentralisation, education, awareness and training amongst government functionaries has hampered the effectiveness of local governments.*

Decentralisation is widely recognised as a policy reform that when "... carefully planned, effectively implemented and appropriately managed can lead to significant improvement(s) in the welfare of people at the local level..." (UNDP, 2004: 2). It is estimated that 80% of developing countries are experimenting with some form of decentralisation (UNDP, 2002). The degree and type of decentralisation varies by region and experiments with decentralisation have produced interesting results in different countries*.* This policy brief analyses the structure and impact of decentralisation in three countries - Bolivia, Switzerland and Uganda.

Designing Decentralisation

Decentralisation has many definitions but broadly it describes "the transfer of responsibility for planning, management, resource raising and allocation from the central government and its agencies to the lower levels of government" (UNDP, 2002: 5). Decentralisation can be **administrative** (where public functions and staff are assigned to lower levels of government); **fiscal** (where funds and revenue raising powers are devolved to lower levels of government), **political** (where decision making powers are devolved to lower levels of government) (Jütting et al (2005). Countries have experimented with administrative, fiscal and political decentralisation to varying degrees often in combination with one another (see Table 1).

Table 1. Decentralisation by Region



Source: UNDP (2002: 11)

In practice, effective decentralisation requires the clear assignment of duties and responsibilities (functions); sufficient resources (funds) and staff (functionaries) needed to carry out public duties at each level of government. The 3Fs as they are commonly known are critical to the design of any decentralised system and must be carefully sequenced to ensure their success. In the following section, we look at how three countries – Bolivia, Switzerland and Uganda – have devolved the 3Fs to local governments.

Decentralisation: An International Perspective

Bolivia: In Bolivia, the Law of Popular Participation 1994 (LPP) and the Law of Administrative Decentralisation 1995 (LAD-adm), define the legal framework of decentralisation. While the LPP sets out the framework for decentralisation at the municipal level, the LAD-adm outlines decentralisation at the departmental level. Both laws go hand in hand and are linked to a National System of Planning which outlines three levels of planning and development at the national, departmental and municipal level (Seemann, 2004).

Functions: Decentralisation dramatically extended the scale of municipal government in Bolivia. The LPP created 311 municipalities (there are now 320) each with their own democratically elected mayors and town councils. Each municipality was granted territorial power and made responsible for a range of development activities including infrastructure, local roads, sports, health and education etc. Basic Territorial Committees (OTBs) were created to represent local communities and to channelize debate on local developmental issues (Ibid). Municipal vigilance committees (Comités de Vigilancia) with veto powers over municipal budgets and reports were also set up to oversee and monitor municipal expenditure (Kohl, 2003). At the departmental level, under the LAD-adm, a prefecture administrative was created to oversee the decentralisation of public services in all departments. At the national level, the national executive was reorganised to better support municipal governments. This was accomplished through a reorganisation of regional development units to support municipalities and integrate their functions (Seemann, 2004).

Funds: The reforms brought about a massive shift in resources towards municipalities. Previously, 308 municipalities were forced to share a mere 14% of devolved funds, while 3 cities enjoyed a share of 86%. With decentralisation, these figures were reversed with municipalities enjoying 73% of the share and cities only 27% (Faguet, 2004). In total, the reforms transferred 20% of the national budget to the newly created municipalities. There was also a 17 time increase in the share of public investments received by municipalities (from 0.7 to 12%). Notably, municipalities have individual bank accounts into which funds assigned to municipalities are transferred daily by the central government on a per capita block grant basis (i.e. in proportion to the population) (Seemann, 2004). In Bolivia, the decentralisation of power to municipal governments has led to fundamental changes in the pattern of public sector spending. Municipal governments made greater investments in social sectors such as education, water and sanitation, agriculture and urban development to the tune of 79% of total municipal investment (Faguet, 2004). Thus decentralisation in Bolivia, has "led to higher investment in human capital and social services as the poorest regions of the country chose projects according to their greatest needs" (Ibid: 887).

Functionaries: Municipalities hire their own staff and have developed their own local bureaucracies. It has been estimated that between 1994 and 1996, the LPP created 30,000 new jobs. However, despite the increase in staffing, limited administrative capacity remains a major handicap to effective local government in Bolivia (Kohl, 2003). Municipalities are often unable to perform the tasks assigned to them because of administrative problems such as lack of trained and competent staff (Seemann, 2004).

Switzerland: The Swiss Federation is a complex three layered system of government divided into communes at the local level, cantons at the intermediate level and the confederation at the national level (Dafflon, 1999). The strength of local government in Switzerland has been attributed to the strong tradition of local participation; the connection between elected politicians and their communities and the fact that citizens identify strongly with their communes (Kälin, 2000).

Functions: In most areas, responsibilities are shared between the three levels of government. While the confederation is primarily responsible for foreign affairs and national defence – cantons and communes are responsible for education, culture, sports, health, roads etc (Dafflon, 1999). Cantons enjoy a great deal of autonomy and have the right to enact their own constitution. Each of the 26 cantons has its own parliament, government and judiciary. Within the cantons, all citizens have the right to vote in elections. Switzerland's 3000 communes also enjoy a great deal of political autonomy and can select their own political and administrative structure subject to cantonal legislation (Kälin, 2000). Communes are responsible for the construction and maintenance of roads, managing local transportation, providing water, running primary and secondary schools etc. They have the right to plan and implement these activities within the remit of cantonal legislation.

Funds: In Switzerland, each level of government has direct access to at least 2 major sources of revenue. Income tax is the most important source of revenue followed by VAT (Value added tax). Cantons enjoy independent control over their budgets, financial resources and have taxation powers (Dafflon, 1999). In addition, they enjoy a strong financial position as they receive 40% of the tax share. Communes receive approximately 30% of the tax share and have the right to impose taxes. The tax share of the federal government is equal with that of the communes at 30% (Kälin, 2000). There is a low dependence of communes and cantons on revenue transfers as 77% of canton revenues and 84% of commune revenues are generated from own revenues. Cantons and communes spend a large percentage of their revenues on improving public services (Dafflon, 1999).

Functionaries: In order to execute the activities assigned to them cantons and communes hire and appoint their own staff. There is a clear demarcation of tasks between central and cantonal as well as cantonal and communal levels of government such that there is little overlapping of powers or activities (Kälin, 2000).

Uganda: Decentralisation in Uganda has been described as one of the most far reaching local government reform programs in the developing world. The Ugandan government embarked on a full fledged decentralisation reform program in the 1990s. The Local Governments Act 1997 comprehensively lays out the roles and responsibilities of different levels of government.

Functions: In Uganda, local government is organised into a five tiered pyramidal structure which in rural areas consists of i) village, ii) parish, iii) sub-county, iv) county and v) district. In urban areas, local government is divided in i) village, ii) ward or parish, iii) municipal division, town or city, iv) municipality and v) city and urban areas. The key institution at all local levels is the council composed of elected members who represent specific electoral areas or interest groups. Local governments are responsible for managing facilities and delivering local goods such as education, health and water services etc while the central government handles defence, security, foreign relations and responsible for developing national policy guidelines (Steiner, 2006).

Funds: Local governments have been empowered to levy and collect a range of local taxes. For instance, district and urban local governments can impose property tax and other non-tax revenues such as market dues, parking fees and trading licenses. To supplement their incomes, local governments also receive inter-governmental grants and transfers. It has been estimated that approximately 30% of the national budget is transferred to local governments as inter-governmental transfers and 27% of total public expenditure is spent at the local level. Despite these high figures, in practice, resources to local governments are insufficient and fiscal transfers from the central government are low and tied to conditions. In addition, local collection of taxes and revenues is extremely low. According to Steiner (2006) fiscal decentralisation in Uganda was implemented without taking into consideration the cost of decentralising services – this has had an adverse impact on the ability of local governments to perform their roles.

Functionaries: Staffing of local governments has been a major problem in Uganda as there is a lack of educated and experienced civil servants such as planners, engineers and teachers particularly in remote areas. Moreover, there is a tendency for local governments to appoint personnel on the basis of ethnicity or residence rather than merit (Ibid, 2006). The participation of local communities in local government processes continues to be a challenge with the continued dominance of local elites (UNDP, 2002: 13).

Conclusion

The experiences of Bolivia, Switzerland and Uganda suggest that the sequencing of decentralisation reforms is important. In the absence of effective sequencing, decentralisation reforms can fail. In Uganda, the lack of sufficient funds and staff has hampered the effectiveness of local governments in carrying out tasks assigned to them. In marked contrast, decentralisation in Switzerland has been more effective as cantons have sufficient administrative and fiscal autonomy to guide local development processes effectively. To conclude, when designing decentralisation reforms, countries need to carefully consider the role of government; decide how finances will match responsibilities at every level and figure out the all important balance between autonomy and control (Lister and Betley, 1999). According to Sharma (2005, 2008) policymakers and governments should keep in mind the following key principles when developing blueprints for decentralisation:

- Finance should follow function;
- There should be informed public opinion;
- Mechanisms to make local priorities known should be established;
- There should be incentives for people to participate;
- Local priorities must be adhered too;
- Local governments must be incentivised to be fiscally responsible;
- Decentralisation instruments should be designed to support political objectives.

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