



Principles and Models of Decentralisation

GPG's *Guide to Decentralisation* series explores the practicalities of designing, implementing and managing the process of decentralisation. The Guides explore key areas affecting the planning and delivery of an effective decentralised system, drawing on international experience and best practice.

In this Guide we consider some key principles and models of decentralisation, and seek to answer the following questions:

- What is decentralisation?
- What advantages and pitfalls can it bring?
- What forms can decentralisation take?
- What principles should be followed when allocating powers between tiers?
- What financial, behavioural and cultural changes need to accompany the necessary legal and structural reforms?

Introduction

Decentralisation is increasingly recognised internationally as essential for good governance. Done well, it leads to greater participation, greater efficiency and greater diversity. Local empowerment is thus a fundamental building block of a successful representative political system. This paper examines the principles behind decentralisation and describes some of the different models. The gains that decentralisation brings – and some of the potential pitfalls – are also outlined.

What is decentralisation?

Two types of change in governmental organisation are sometimes wrongly described as decentralisation. The first simply involves moving government offices away from the capital city or other prosperous areas to the less wealthy parts of the country. That helps spread prosperity and may be highly desirable – certainly in

the many countries of the world where too much wealth is concentrated in the capital city. But it is not decentralisation.

The second is a transfer of responsibility for delivery of services from central government to local government but without central government relinquishing effective control over the way local government delivers those services. This may be desirable in improving efficiency of service delivery. Again it is not true decentralisation.

True decentralisation requires a shift in power. It means central government giving up power, and the decentralised authorities gaining power. These decentralised authorities then have real responsibility, and real local accountability, for the services that they control. It is a fundamental change in the way a nation State is governed.

What advantages does decentralisation bring?

Fundamental change is only justifiable if the advantages substantially outweigh the disadvantages. **The advantages of decentralisation include responsiveness, efficiency, representative empowerment and the re-invigoration of the nation.** In countries like Tunisia, Ecuador and Bolivia, where there have been recent decentralisation agendas, the goal of the process has been strikingly ambitious: political and institutional transformation, the empowerment of local actors and a reduction in structural territorial inequalities. The process has been found to bring many other gains.

- Local leaders better understand local needs, and the gap between policy development and citizens' needs is narrowed
- Resources are better matched to local needs when there is local understanding of local circumstances and local

Contents

Introduction	1
What is decentralisation?	1
What advantages does decentralisation bring?	1
What are the potential pitfalls?	2
Different systems	2
How to decide the powers to be decentralised	3
Structures	3
Finance	4
Cooperation between tiers of government	5
Legal structures and cultural change	5
Conclusion	6
About the author	6
Endnotes	6

decision-making. This is more efficient, and less costly, than central determination

- Local delivery is speedier – centralised bureaucracies are slimmed down or even eliminated
- Revenues are raised in ways that suit local circumstances and encourage local prosperity
- Economic development is fostered when infrastructure and other support mechanisms are planned in a way that meets local circumstances
- Local control of policy is more popular than remote central control. It re-invigorates citizens' support for the political system
- Local leaders are more accountable than national leaders, and transparency is greater. This enhances representative governance
- Engagement is improved, with local leaders better able to consult and collaborate with citizens, and improved access for those citizens to decision-takers
- New people are brought into the government process, whether as elected or appointed officials. They bring new thinking and innovation
- The development of local leaders provides a resource for national leadership
- Minorities and diversity are more easily recognised. This helps diffuse autonomist or secessionist tendencies
- Burden-sharing helps the nation's governance – there is less work for central Governments and Parliaments, who are better able to concentrate on their national duties.

What are the potential pitfalls?

There are also potential disadvantages that come from decentralisation.

- There is a short-term danger of overlap, confusion, ambiguity and high transaction costs during the implementation of decentralisation – this can cause longer term disillusionment with the process
- Poor quality among local leaders or local officials can lead to incompetent delivery of services
- This in turn can lead to disillusionment among citizens, not just about decentralisation but about the wider system of government and its responsiveness to their needs
- In any case, weak levels of understanding of the decentralised system result in weak levels of engagement and therefore disenchantment
- Efficiencies of scale can be lost, leading to

increased costs

- The loss of central control may result in a fall in cross-national standards and problems for national policy coordination
- Resistance to the redistributive function of the State may be increased, with richer regions being unwilling to subsidise poorer regions
- Central institutions may be undermined, and respect for them may diminish
- Bickering and blame sharing between different levels of government may grow
- Pressure for secession from some regions may grow
- Decentralised structures may be “captured” by local elites with the potential for corruption, patronage and nepotism that this brings
- Decentralisation can lead to the enhancement of prejudice and tribal, ethnic or religious divisions, and possibly to conflict.

Some of the ways in which these disadvantages can be avoided will be explored further in this paper. But it must be emphasised above all that if a decentralisation policy is implemented without sufficient preparation, or without ensuring that adequate financial and human resources are provided for it to be a success, then it is highly likely to fail (see paper 3 in this series for more detail about the effective implementation of decentralisation).

Different systems

There is no perfect system of decentralisation. One size does not fit all. This is true within individual nation States as well as between different nation States.

- Some decentralised authorities can pass laws in vital areas of public concern like policing, justice, infrastructure, health or education; others are little more than weak local administrations
- Some have extensive revenue-raising powers and can spend their revenues as they wish; others are restricted in the way they raise money and how they spend it
- There are varying balances between giving decentralised authorities duties with which they must comply and giving them powers that they can exercise as they think best – in other words, there are different levels of autonomy
- Some countries have multiple tiers of government, and some have asymmetric systems with different levels of decentralisation applying in different parts of the nation.

There are two fundamental decisions to take: what powers are going to be decentralised, and how will the structures and the geography of the nation look after the decentralisation process is complete.

How to decide the powers to be decentralised

The division of powers must be rational and sustainable, with powers exercised at the right level to benefit the citizen. Ideally, a principle-based approach to division of powers should be adopted, using such principles as:

- **Empowerment, Subsidiarity and Localism** – are decisions made as close as possible to the person they affect?
- **Accountability** – does decentralisation mean that citizens are better able to hold institutions to account for delivering policies in a transparent way?
- **Clarity and Simplicity** – do citizens better understand where decisions are made? Does decentralisation make their lives simpler or more complex? Is the risk of muddle and blame-sharing between the different tiers of government enhanced?
- **Coherence** – is the framework of powers exercised at each different level coherent?
- **Collaboration** – are national, regional and local authorities helped to work constructively together?
- **Efficiency** – are the arrangements affordable and value-for-money? Do they involve undue burdens on individuals or businesses?
- **Equity** – are fundamental standards and rights enhanced?
- **Stability** – is the settlement well founded, sustainable and predictable in its operation, and will it meet the needs of future generations?

Application of these principles is not always straightforward – while, say, foreign affairs will sensibly be dealt with at a national level, different countries will have different views about whether, for example, transport infrastructure should be a national or a regional responsibility. The picture is complicated further when there are multiple tiers of government. The Box below illustrates the complication of the interplay between these principles with an example from the UK.

Water in Wales

There has been a proposal to decentralise water services. Local people would understand better who is responsible for their water services

(accountability) – and local water services would better meet local needs (localism). But water tables are not aligned with territorial boundaries and it would be unfair for the Welsh Government to control water services outside the territory of Wales (equity). This might also increase burdens for consumers (efficiency). A system of cross-border agreements has therefore been proposed (collaboration). It remains to be seen how these will work out in the longer term (stability).

Structures

An ideal system of decentralisation gives powers to different levels of government on the basis of these principles. But **geographical boundaries and structures also have to be determined.**

Dividing up a nation into regional units will depend on geography, identity, ethnicity and history. The actions of nineteenth and twentieth century imperial powers in dividing up territories without respecting these factors is an object lesson in what not to do. Another important factor is, of course, the sensible use of scarce public resources. Some nations that already have decentralisation are comfortable with different powers being held by different regions. Others regard it as important that all regions have identical powers. Small units may be able to understand local needs better, but they will have less capacity to deliver efficiently and perhaps be more susceptible to “capture” by local elites. Urban areas or economically developed areas may be more capable of service delivery than rural or poor areas. But poor rural areas may have a stronger sense of identity. It is always a difficult balance to strike.

Another issue to consider is what tiers of government there should be below the decentralised regional tier: how many levels of representative accountability do there need to be? A classic division is between the nation, the region and the municipality. Smaller nations may have only two levels; others have up to five. How the geographical boundaries of the different tiers relate to one another also needs to be considered, as well the synchronicity – or otherwise – of elections in the different tiers. There may also be different electoral systems that work better in different areas.

There are many different models in the world:

- Switzerland gives enormous powers

to its 26 cantons, some of which have populations as small as 15,000

- Belgium is at the extreme in terms of the powers decentralised to its historic regions¹ – they even have power to reject draft Treaties agreed by the European Union. It also has 10 provinces and 569 municipalities
- Tunisia's 2014 Constitution reversed the country's history of centralisation by giving extensive powers to the country's 264 municipalities
- Brazil has decentralised to 26 States and 5000 municipalities for many years, though some powers have been returned to central Government more recently
- Spain gives very different powers to different regions, with regions with strong regional historical identities generally having the greatest power
- Germany's Länder and Canada's Provinces vary greatly in geographical size, population and economic prosperity, but all have the same powers
- In the UK, there are different systems in Wales, Scotland and Northern Ireland, and a whole variety of different systems inside England. These systems also have a variety of different electoral systems, with staggered electoral cycles
- Sweden is a unitary State, but with a high level of decentralised power distributed among its counties and municipalities – these vary greatly in size and population

Finance

After structures and powers comes money. It is undoubtedly desirable for decentralised government to have responsibility for raising its own revenue and setting its own taxes. That is the best way of achieving accountability and responsibility at a local level. There is also evidence that taxes are easier to collect when people can see that they are being used for local purposes. Mechanisms that are typically used include:

- Local property, sales and business taxes
- Local personal taxation
- "Sharing" taxes between the nation and the region
- Fees for licences or permits
- Payments by individuals for receipt of services

Not all taxes are suitable for local control. Tax competition with, for example, different rates of business tax in different parts of a single nation State may not be desirable. If taxes on, say, petrol or tobacco or alcohol are controlled locally, there may be distortions of trade within the nation – though sales taxes

vary between the different States in the USA. Personal taxation (on income, wealth or inheritance) depend on careful definition of where a person is resident. Many believe that the best local taxes are taxes on property because property cannot move in the way capital or people can in order to avoid local tax rates set by decentralised authorities.

The OECD publishes figures² for the amount of taxation raised at central government and local government level in its member States. This can be seen as a measure of the extent of real decentralisation within each. Federal States, such as Canada, the USA and Germany have high percentages of tax revenue collected at the decentralised level, but so do unitary states like Japan, Sweden and Denmark.

In any case, if taxation powers are passed from central Government to regional or local government, or if the revenues from certain taxes are shared between central and regional or local government, there is both risk and opportunity for the regional authority – and there needs to be a clear formula that ensures that there is no detriment to central Government. The Box below gives an illustrative example.

Tax empowerment: potential consequences

Powers over health and education pass from central government to regional government. Regional government is given powers to raise taxes to pay for these services. National taxes should go down in the region by the amount the nation previously spent on health and education in the region. The region may then

- decide to charge less taxation and reduce service levels
- decide to charge more taxation and increase service levels

But the region may also make efficiency gains, in which case it will be better off than before – or it may do things less efficiently so that regional taxpayers pay the same, or even more, and get worse services

As well as raising money locally, **there may well continue to be a need for central government funding and for funding flows between regions:** decentralisation should not necessarily mean that every local area should be responsible for paying for all the services it provides from local revenue. All nation States are

social unions where there are transfers of resources from rich areas to poor areas. This can cause friction. Rich regions may want to hold on to what they see as “their money”, or the federal/central government may wish to dictate how money is spent by local government, especially when, inevitably, some areas of policy are set centrally but implemented locally. Some principles to consider to ensure fair funding are:

- a system for regular review to ensure fairness between regions
- a system that clearly links grants from central Government to the needs of individual regions
- stability and predictability
- openness and transparency

Even if these principles are followed, disputes may arise. Ideally, to ensure that disputes are resolved, there needs to be an independent arbiter of fair funding – the model of Australia’s Commonwealth Grants Commission is an example of this.

Cooperation between tiers of government

Decentralisation must not lead to less connectivity between the different tiers of government if it is to be a success. Opportunities for shared service provision need to be sought, and different levels of government within a nation State need to work together cooperatively. “Co-responsibility” between the different levels of government should be the fundamental principle. However, cooperation often does not happen, with central government sometimes contemptuous of local government. But citizens want efficient service delivery, with different government levels working harmoniously together in citizens’ interests. There is no value for them in squabbling between different tiers of government.

Disputes between different tiers of government need to be minimised. Of course there will be tensions and rivalries between national and local leaders. There should be efficient mechanisms for dispute resolution. This should involve methods of informal resolution and formal arbitration. It may involve resolution through constitutional courts, though the formal legal methods are best avoided.

But the best way of avoiding disputes altogether is if relations between the national and decentralised authorities are founded firmly upon principles of mutual respect and

desire to do what is best for the citizen. This, after all, should be the common aim of all in government at every level.

Politicians can set an example here. Elected leaders in national Parliaments need to work cooperatively with elected leaders at decentralised levels. Some of this is pragmatic: excellent information flows between central Parliaments and regional Assemblies; elected Members having easy access to one another’s buildings; formal shared proceedings becoming the norm rather than the exception; and so on. Equally important is that elected representatives at one level do not stray into the areas of responsibility of elected representatives at another: for example, if housing is a regional responsibility, then a national legislator should not be tempted to promise his or her constituents that s/he will help them with their housing needs.

When it works best, decentralised systems of government are enriched systems, with national and regional governments learning from one another and almost competing against one another for citizen support and so enhancing service delivery. For example, it was at a local level in Brazil that participatory budget-making first developed.³

Legal structures and cultural change

At worst, decentralisation is a nominal activity – the creation of new forms of government without any real empowerment at the local level. It can even be characterised as a job creation scheme for local politicians or bureaucrats without any gain for citizens. **To work well, decentralisation needs cultural change as well as legal change.**

That cultural change requires commitment at the central level, with a vision, clear strategic objectives and careful planning. Commitment needs to be shared at the local level. There must be a focus on doing what the citizens in local areas want and what will truly benefit them. People have a limited appetite for constitutional arguments: they want to see good delivery of the services that are important to them. They will embrace decentralisation if they see it as transformational, and only if they see leaders who are imaginative, passionate, committed, in tune with the spirit of the community and enthusiastically seeking solutions. In other words, citizens need to see cultural change, not merely a shifting around of legal structures.

Nor is the process achieved when the decentralisation legislation is passed and the new decentralised authorities are up and running. The first steps may not succeed and they may need to be changed. Lessons should be learned from mistakes and the system should always be regarded as something that can be improved. **Decentralisation is best seen as a process, not a single event.**

Conclusion

Badly done, decentralisation may result in inefficiencies and disillusionment with the process of government. Properly done, decentralisation leads to improved governance. It has clear administrative virtues in terms of service delivery. It also has what might be called “civic virtues” – greater citizen ownership of the process of government, and a development of healthy competition between different layers of that government, all of which lead to the strengthening of representative politics.⁴

About the author



Paul Silk spent most of his career as a senior official in the British House of Commons. From 2001 to 2007 he was Secretary General of the National Assembly for Wales, and from 2011 to 2014 he chaired the Commission on Devolution to Wales. He has been an honorary professor at Cardiff University and is a Fellow of the Learned Society of Wales and of Aberystwyth University. He was appointed KCB in January 2015 for his services to the Parliaments of, and to devolution in, the United Kingdom.

Endnotes

¹ These are the Flemish and Walloon Regions. There is also a Brussels City Region. Belgium also recognises Dutch, French and German linguistic communities.

² See Table 2 in

³ Participatory budget-making is a process of democratic deliberation and decision-making, and a type of participatory democracy, in which ordinary people decide how to allocate part of a municipal or regional budget.

⁴ For further reading, see World Bank article at

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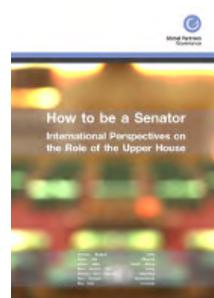
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