Executive Summary

Introduction

The United Nations Development Programme (UNDP) affirms that effective and responsive governance is an important path toward achieving sustainable human development.

Although decentralization is a major aspect of governance, it does not itself assure genuine participation or assured access to services at the local level, especially by the poor. A broader concept of governance is required, one that reflects trust versus control, service versus power.

The notion of stewardship, drawn from the literature of management and organization in the United States, may offer a useful window into this broader understanding of governance. Stewardship depends on a willingness to be accountable for results without using control as the means to reach them. This demands a choice for service with partnership and empowerment as basic governance strategies. Stewardship, then, requires decentralization that goes beyond administrative and financial measures to a dimension of political power sharing that enhances civil society. Or, as stated by U.S. President Clinton, “Empowerment means not only having choice but having the capacity to exercise that choice.”

The 1980s and the early 1990s have witnessed major political and economic upheavals in most regions in the world. The perceived success of market economies, the failures of central command and control systems, and inefficiencies of state enterprises have overturned the strong, controlling role of the state in previously publicly dominated economies.

Worldwide Trends

Rural → Urban
For the first time in history, at the turn of the century, there will be more people living in urban areas in the world than in rural areas.

North → South
Out of the 23 cities with 10 million people or more each, 18 of them will be in the developing countries of Asia, Africa, and Latin America.

Formal Sector → Informal Sector
Most cities provide services to an increasing extent through the informal sector (i.e. micro enterprises) rather than through the formal sector (i.e. the market or government).

Cities → Megacities
We are moving from cities as we have known them to “megacities” of a size and scale unprecedented in human history. These very large cities are here to stay. We have little experience managing them.
While Asia, the focus of this paper, has not been as highly urbanized as most of the rest of the world, the region will exceed 50 percent urban in another quarter century. In absolute numbers, managing the urban system in Asia now means responding to the needs of almost a billion people. In the next quarter century, that number will grow to well over two billion people. That doubling implies enormous investments in urban services and economic activity to shelter, transport, and employ this population and provide for other basic necessities.

In this context, there is a mutually reinforcing nature to building good governance, described in Figure 1 as a series of expanding concentric circles. Opportunities must be provided to citizens to express their preferences for the quality and nature of services they desire. Management effectiveness and behavior determine how well elected officials and staff provide services that respond to those needs. As local government actions are perceived to be useful and responsive, citizens are increasingly willing to provide resources for public services and infrastructure.

But, lacking democratic traditions, particularly at the local level, government officials often do not yet have the necessary skills and techniques to lead participatory government, nor do citizens have the skills to participate effectively. Successful demonstrations of non-threatening problem solving at the local level can build local skills and confidence, provide concrete examples for other local managers, and encourage national policy makers to provide needed policy support. As discussed in Part 1 of this paper, these dynamics can nurture effective governance through stewardship.

**Aspects of Decentralization**

The word decentralization is used to refer to many quite different institutional reforms and so a precise meaning for the term does not exist. Among the changes to which the term is applied are

- the functional activities over which authority is transferred;
- the type of authority, or powers, which are transferred;
- the level(s) or area(s) to which such authority is transferred;
- the individual, organization, or agency to which authority is transferred; and
- the legal or administrative means by which authority is transferred.

Broadly speaking, decentralization is a change in
the institutional framework in which political, social and economic decisions are made and carried out. The idea of decentralization is equally applicable to a single organization, public or private, and to complex groupings of organizations, such as governments. In public sector discourse the idea usually is applied to the relationships between central government roles and responsibilities and subnational (such as state or province) and local government roles and responsibilities.

As applied to governments, the key characteristics of decentralization involve changes in patterns of authority and in the status of governmental institutions. Assigning responsibility to local governments while still holding local officials accountable to central government is a very limited form of decentralization and is less likely to achieve expected benefits than a more autonomous local control. Autonomy in the sense of having a constitutionally protected status which cannot easily be changed by legislative or executive action at a higher level of government confers on local government status sometimes referred to as "corporate" status. Corporate status emphasizes that local government institutions are the managers of assets "owned" by current and future residents; local officials therefore are responsible for managing those assets for the benefit of these residents.

There are three key dimensions of decentralization that reflect, in general terms, increasing and often sequential stages of progress in achieving the governance objectives of decentralization. These stages are illustrated in the pyramid below.

- Administrative Decentralization (Functional Responsibility);
- Financial Decentralization (Access to Resources); and
- Political Decentralization (Accountability)

In actual experience, decentralization programs have tended to focus on a few key elements:

- Getting the expenditure and revenue assignments correct, especially focusing on the intergovernmental fiscal system;
- Getting the political and administrative systems in place so the local governments have sufficient autonomy;
- Getting incentives right so that individuals and institutions perform as expected and desired;
- Strengthening human resources, particularly in local governments, so that elected and appointed staff have the requisite skills to perform as expected;
Fostering community participation and encouraging NGOs to become involved in local government so that government systems adequately reflect citizen preferences.

As discussed in Part 2, decentralization means reassigning responsibility, authority, and resources from central government institutions to local governments that have a significant degree of autonomy and accountability, enabling them to be effective stewards for their citizens.

**Bridges to Stewardship: Supporting Issues**

Beyond the administrative, financial, and political aspects of decentralization are linked aspects of stewardship that contribute to effective governance. Among these are institutional partnership, the role of incentives for decentralization, and performance management, addressed in Part 3.

For the governance link between public officials and citizens to be effective, a useful interface—incorporating communication, collaboration, problem-solving, and mutually beneficial interaction—must be created between government and a local community. These two sides generally have their own major goals and value systems that often are not well understood or closely linked. Indeed, they can be at odds with each other. There has to be some balance between participation and local decision-making on the one hand and the national interest on the other. For example, good reasons may emerge for financial transfers from a central government not to be totally unrestricted. A productive balance requires a sense of institutional partnership among actors willing to shape their agendas to shared goals.

There are various incentives to decentralize. *Central* government’s incentives for decentralization are in part a response to global trends and in part a recognition of a new phase of nation building. Key incentives for central governments to decentralize include the desire to share political responsibility for problem solving, citizen dissatisfaction with centralized political and economic control, resource shortages, and donor pressure.

*Local* governments also have certain incentives for democratic decentralization that are somewhat different from the reasons central governments want to decentralize. Major factors driving local government interest in decentralization include the desire to control resource utilization, citizen pressures, and performance accountability.

Incentives can also be viewed as leverage points—small changes that can produce lasting change in complex systems. Incentives for democratic decentralization are leverage points to change systems of governance.

Ultimately accountability is served by effective systems of performance management. Three vital emphases distinguish strategic performance management from traditional local government monitoring and auditing activities:

- Managing for results: an emphasis on bottom-line outcomes that are the result of management decisions and actions at all levels of the organizational structure;
Customer focus: a commitment to quality as perceived by service users consumers; and

Public accountability: a shift from traditional ideas of “professional accountability,” that is, open and transparent accountability for results as perceived by citizens.

Conclusion: Implications for Decentralization Strategies

Decentralization is not a new concept and, indeed, it has been present as a policy in developing countries for decades. Many countries have longstanding arrangements of subnational or local government as part of public governing structures. Often, however, the relevant issue is not the formal existence of decentralized structures but rather the degree to which decentralization has been made an effective policy, the extent to which resources and functional authority have been transferred to the local level, and the extent to which decentralization has become a serious tool for addressing broad citizen needs. These issues are addressed in Part 4.

Decentralization is a complex process requiring considerable time, commitment, resources, coordination, and capability at several levels of government. Problems inevitably occur and implementation often lags proclaimed commitment and even genuine intent. Expectations then run ahead of the real time demands of institutional change, potentially leading to disillusionment and loss of momentum. For these reasons, behind all the strategies and systems of decentralization is the need for enduring leadership at all levels of government, leadership that accepts responsibility and accountability.

Accountable administrative mechanisms center on establishing clear management responsibility assignments. Clear assignment makes it apparent who is responsible for the services and financial performance of specific departments or subdepartments. Further, administrative accountability mechanisms involve operational statements of the quantity and quality of output expected of those departments and their managers. Finally, communication of performance results is a necessary component of administrative accountability mechanisms.

Political mechanisms typically focus on the means of holding public officials and managers accountable through selection and removal. Electoral systems represent the ultimate democratic means of holding some public officials to account, but depend on an interested and informed electorate. The capability of citizens to change government leadership when dissatisfied with performance is the crux of political accountability. Electoral systems can accomplish that but they are only a means. Even in the absence of electoral systems, if local government officials respond to citizens demand and preferences, then they are practicing accountability. Community groups and NGOs have proved capable of changing public sector officials, and they are most effective when targeting their pressure to local government officials.

In addition to the broad, overriding importance of autonomy and accountability for effective governance, RTI’s work in democratic decentralization points to several related conclusions:
1. Decentralization is neither a single model nor an all-or-nothing proposition. Rather, there is a gamut of solutions for addressing the basic issues of decentralization.

2. Democratic governance at the local level is an exchange between the government and those governed. The availability of information to citizens and the transparency of governmental processes are crucial for this exchange to be responsive to citizen needs.

3. Decentralization requires supportive attitudinal, behavioral, and cultural conditions.

4. The national enabling environment is important for democratic decentralization. Decentralization is not a “magic bullet.” It must take root and grow in an hospitable environment.

5. Clarity in the division of functional responsibilities between levels of government is an essential condition of decentralization reform.

6. Various sectors of society, particularly marginalized groups, can most easily participate in decision making at the local level.

7. Strengthening channels of information is a key leverage point for increasing citizen access and influence.

8. Membership organizations such as municipal associations can become important conduits for advocacy, information exchange, and for communication about best practices among levels of government.

9. Municipal government financial autonomy, supported by adequate resources and financial management, is critical for local democratic development.

10. Foreign assistance can be most effective (a) at the national level to foster a supportive enabling environment, and (b) at the local level to build capacity for engaging in good governance.

Ultimately, moving toward governance as stewardship also will require broader driving forces. First, there must be political will as manifested by a vision for change, leadership commitment, and the consensus of the governed. Second, government must exercise its commitment through policies and actions that enable and facilitate innovation, especially at subnational levels. Third, genuine autonomy must be granted to local government which, in turn, must establish its legitimacy with citizens, communities, and the organizations in civil society that represent them. Fourth, the exercise of power at all levels must be guided by shared values and ethics that define the operating principles of how government relates to its citizens. This is the essence of stewardship.

By way of summary, Figure 2 lists characteristics of traditional systems of governing and contrasts them with principles of governance through stewardship.
Figure 2  Stewardship Principles

<table>
<thead>
<tr>
<th>Principle</th>
<th>Traditional Approach</th>
<th>Stewardship Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Civic Participation</td>
<td>Minimized</td>
<td>Maximized</td>
</tr>
<tr>
<td>Local Leadership</td>
<td>- Isolation and fragmentation,</td>
<td>- Cross-jurisdiction cooperation</td>
</tr>
<tr>
<td></td>
<td>- Competition</td>
<td>- Strategic alliances</td>
</tr>
<tr>
<td>Municipal Role</td>
<td>Government</td>
<td>Governance</td>
</tr>
<tr>
<td></td>
<td>- Service provider</td>
<td>- Facilitator, enabler</td>
</tr>
<tr>
<td></td>
<td>- Regulator</td>
<td>- Negotiator</td>
</tr>
<tr>
<td></td>
<td>- Command and control center</td>
<td>- Leverage of resources for the collective good</td>
</tr>
<tr>
<td>Government Structures</td>
<td>Local, district, province, federal</td>
<td>Neighborhood, regional, global</td>
</tr>
<tr>
<td>Local/Regional Autonomy</td>
<td>Less autonomy, low ratio of regional to province/national funding</td>
<td>More autonomy, high ratio of regional to province/national funding</td>
</tr>
<tr>
<td>Problem analysis</td>
<td>Symptomatic, reactive, shorter-term</td>
<td>Systematic, proactive, longer-term</td>
</tr>
<tr>
<td>Planning</td>
<td>Comprehensive, technocratic, sectoral, reflective of legal mandates</td>
<td>Strategic, enhanced by broad stakeholder participation, cross-sectoral, reflective of community priorities</td>
</tr>
<tr>
<td>Performance Measures</td>
<td>Inputs, activities, costs, professional standards</td>
<td>Outcomes, investments, stakeholder participation</td>
</tr>
<tr>
<td>Indicators of Sustainability</td>
<td>- Non-existent or sectoral</td>
<td>- Interdisciplinary</td>
</tr>
<tr>
<td></td>
<td>- Used by bureaucrats</td>
<td>- Used by the public</td>
</tr>
</tbody>
</table>