The demand for public services and physical infrastructure in developing countries is growing steadily as populations increase, and as expectations of achieving better standards of living are raised by national development plans and international assistance programmes. Local services and infrastructure not only contribute to social welfare but also enhance the productivity of labour, allow markets to work more effectively, and create opportunities for employment and entrepreneurship (World Bank, 1975; USAID, 1982). But in many developing countries local services and infrastructure are either provided by central governments ineffectively and inefficiently, or by community organizations and private businesses only sporadically (Moris, 1976; Ayubi, 1982; Harris, 1983). Local institutions often lack the incentives, adequate funds, technical expertise, and management capacity to provide services. Thus in many developing countries there are few services of any kind in areas outside of the national capital (Rondinelli and Ruddle, 1978).

Furthermore, the maintenance of physical infrastructure that does exist is notoriously poor in developing countries, and as a result services and facilities deteriorate quickly (Tendler, 1979). The World Bank reports that roads it financed during the 1960s and 1970s are deteriorating so fast that many will be unusable before the borrowing countries can repay the loans for their construction. The cost of needed road maintenance in developing countries is now approaching US$40 billion (Roth, 1987b).

The problems of providing and maintaining public services and infrastructure have brought increasing calls for decentralization and
privatization, and many governments are now decentralizing responsibilities for service and infrastructure provision, financing and management (Rondinelli et al., 1983; Rondinelli, 1987).

The questions of which services should be decentralized, how they should be financed, which organizational arrangements are most feasible and effective, and how decentralization policies can be better implemented, however, remain open and in some countries hotly debated. Two major approaches to analysing decentralization policies in developing countries have emerged in recent years: one is based on neoclassical economic theories of public choice (Russell and Nicholson, 1981); the other on policy analysis approaches using public finance and public administration theories (Maddick, 1963; Leonard and Marshall, 1982; Cheema and Rondinelli, 1983; Conyers, 1983). The former approach relies heavily on deductive hypotheses about the nature of goods and services, the latter on empirical observations about the characteristics of organizational structures and financial instruments. Neither approach alone offers a comprehensive theoretical or methodological solution to determining how decentralization should be carried out, but both can contribute important concepts and guidelines for designing and implementing decentralization policies.

In this paper we offer an integrated political-economy framework for analysing decentralization policies and programmes that draws on the most useful concepts in both approaches and identifies the factors that should be considered by policy analysts. The framework addresses the needs of researchers interested in exploring the political, economic and social dimensions of decentralization policies in developing countries for an interdisciplinary approach to analysis; the needs of policy designers for a comprehensive framework for assessing potential intervention strategies, and the needs of those engaged in technical assistance and training to identify the factors affecting successful policy and programme implementation.

THE CONCEPT OF DECENTRALIZATION

Decentralization embraces a variety of concepts, the feasibility of which must be carefully analysed in any particular country before pursuing decentralization policies. Rondinelli and Nellis (1986: 5) define decentralization from an administrative perspective as 'the transfer of responsibility for planning, management, and the raising
and allocation of resources from the central government and its agencies to field units of government agencies, subordinate units or levels of government, semi-autonomous public authorities or corporations, area-wide, regional or functional authorities, or non-governmental private or voluntary organizations'.

Decentralization also can be defined as a situation in which public goods and services are provided primarily through the revealed preferences of individuals by market mechanisms. Public choice theorists contend that, under conditions of reasonably free choice, the provision of some public goods is more economically efficient when a large number of local institutions are involved than when only the central government is the provider (Ostrom et al., 1961; Buchanan and Tullock, 1962). A large number of providers offer citizens more options and choices. These options can be packaged as different 'market baskets' of goods and services that meet the needs of different groups of users. In more advanced economies people can select among local areas providing different combinations of services and facilities by moving to communities with the combination they desire (Tiebout, 1956; Olson, 1965; Ostrom and Ostrom, 1977).

**APPROACHES TO ANALYSING DECENTRALIZATION POLICY**

If decentralization policies are to be implemented successfully they must be designed carefully. Analysis of the services to be decentralized, the characteristics of users, and financial and organizational alternatives must be grounded in an integrated political economy framework. Such a framework should link together the two major disciplinary approaches to analysis: public choice theory and the public policy approach.

**Public Choice Approach**

Public choice theory can be useful in analysing the benefits and costs of decentralizing the provision of some public services, especially those for which user charges can be levied or for which criteria of exclusion can be developed. It also can be helpful in determining the feasibility of deregulation and privatization and in changing the rules for renewable natural resource use (Nicholson, 1981). The
application of public choice theory can be most effective in countries where decisions are still being made about whether or not to decentralize, and where decentralization is in early stages of conceptualization. In other countries, where governments have already made the decision to decentralize, analytical techniques must go beyond public choice theory and provide guidelines for policy design and implementation.

The main limitations of public choice theories are their overly rationalistic assumptions and narrow prescriptions (Oppenheimer, 1981). There are strong disagreements among proponents of public choice theory about definitions of concepts and terms (Ostrom, 1986); assumptions and conditions (Baker, 1976); the ability to test theoretical constructs (Moe, 1984) and whether the discipline is sufficiently advanced to allow for empirical testing in developing countries (Hite, 1984). The disagreements are particularly strong over whether or not public choice theories can be used in institutional analyses. Ostrom (1986: 48) points out that 'little agreement exists on what the term "institution" means, whether the study of institutions is an appropriate endeavor, and how to undertake a cumulative study of institutions'.

Institutional economics theorists have been highly critical of the assumption that market transactions are the only effective means of providing services and of neoclassical economists' tendency to ignore institutional factors (Langois, 1986; Nelson and Winter, 1982). Public choice theorists rarely concern themselves with improving the capacity of government agencies to provide more efficiently collective goods that cannot be provided through market mechanisms, a primary concern of governments in developing countries where the private market is still weak or embryonic.

Public choice theories are based on the assumption that people act rationally, always pursue their own economic self-interests, and will make optimal economic choices if left unfettered by government regulations and constraints. But even when decentralization has been justified on economic grounds, most governments have not attempted to decentralize primarily for economic reasons. Indeed, the economic impacts of decentralization have not usually been calculated before policies were enacted. Rondinelli and Nellis (1986) found in their studies of decentralization for the World Bank that many recent experiments with decentralization could not be assessed entirely by economic criteria because they were initiated primarily for political reasons.
Policy analysts using public administration and finance theories take a different perspective on decentralization than neoclassical economists using public choice theories. The neoclassical economic approach is concerned with macroeconomic issues based on equilibrium models, while the policy analysis approach is concerned with specific decisions usually, but not always, focused on microanalytical issues. 'In so far as the objectives of the policy sciences and the neoclassical approach differ, the competition is not precisely a head-on confrontation,' Ascher (1987: 8–9) points out. 'The difference in temperament is that the policy scientist will tuck the economic theories in among the possibilities, and invoke them only when a more intimate look at a particular context indicates that the economic explanation is warranted.' Policy analysis attempts to go beyond, or to place in a broader context, economic factors, and takes into account political, behavioural, administrative and other factors that affect policy implementation.

To be useful, any application of public choice theory in developing countries must be combined with policy analysis to assess politically feasible suggestions for intervention by public and private organizations. But if public choice theories need to be operationalized to be useful, public administration and finance approaches need to be embedded in a stronger conceptual framework in order to make sense of their primarily descriptive methodologies. The study of public administration and finance in local service delivery in developing countries is quite recent, with the major work having been done in the past twenty years. The 'discipline' has grown, not from any deductive theoretical base, but from a series of technical assistance interventions and field studies largely of a descriptive nature (Nicholson, 1981). Furthermore, much of the research in this field has been concerned principally — and often inadequately — with documenting existing practices and conditions. The field research has focused heavily on identifying the sources of local government revenue, assessing the equity and strength of those revenue sources, examining the dependence of local governments on central government transfers, identifying bottlenecks in the system of revenue generation and financial management, and examining mechanisms to stimulate greater local resource mobilization (Bahl and Schroeder, 1981).

By and large, field research has not dealt with the issues of...
improving resource utilization (expenditure efficiency), alternative institutions for delivering services (such as private firms and voluntary organizations), or the effectiveness of intervention programmes sponsored by the international donor community. Overall, there has been a much greater emphasis on revenue generation than on expenditure controls. This generally reflects the belief that service expenditure levels by local governments are too low.

AN INTEGRATED POLITICAL-ECONOMY FRAMEWORK FOR ANALYSING DECENTRALIZATION POLICY

Although both public choice and public administration and finance approaches to analysis have limitations, both can also contribute to assessing policy alternatives and designing programmes for successful implementation. However, only in two areas have neoclassical economic theories been integrated with the public administration and finance approaches. First, the public finance concept of directly charging service users for 'private' goods shares a common foundation with public choice theory. Second, practitioners of cost recovery have been experimenting with local community organizations as intermediaries between government service agencies and individual service consumers (Uphoff, 1986). To be effective these approaches must be integrated into a political-economy framework that is more systematic and comprehensive in its coverage, conceptually powerful, and applicable in developing countries.

Such a framework is depicted in Figure 1. Its components include the analysis of (1) local goods and services and their users, (2) alternative financial and organizational means of providing services, (3) feasible institutional arrangements for service delivery, (4) socio-economic and political conditions affecting the design of policy and the implementation of programmes, and (5) feasible policy interventions and instruments that can provide guidance for policy formulation project and programme design, financial and technical assistance and programme evaluation. Neoclassical economic and institutional analyses provide insight into the functional characteristics of local goods and services and their users, and institutional rules of behaviour, and can contribute to assessing alternative organizational and financial arrangements for service provision and feasible institutions for service delivery. Public administration and finance concepts can be most useful in assessing alternative financial
and organizational arrangements for service provision, socioeco-
nomic and political conditions for policy implementation, and 
implementation analysis and programme design.

Analysis of the Characteristics of Local Goods and 
Services and their Users

The analysis of decentralization policies must begin with a clear understanding of which services can efficiently and effectively be decentralized and the political, economic, social and behavioural characteristics of service users. Existing institutional rules of behaviour concerning the use of goods and services must be understood before feasible proposals for institutional change can be formulated.

1. Public choice theory offers a set of criteria by which the characteristics of services be categorized and assessed. These include such criteria as: (a) excludability; (b) jointness of consumption; (c) willingness to pay; (d) relation of payment to demand and consumption; (e) availability of financial resources to pay; (f) strength of the public services industry to produce and provide services; (g) measurability of the quantity and quality of the service; (h) degree of consumer choice in using the service; (i) basis of allocation decisions concerning the service (market versus political processes); and (j) type of production technology (Olson, 1965; Ostrom and Ostrom, 1977).

These criteria help analysts to categorize services and infrastructure, and indicate the most effective and efficient financial and organizational alternatives for their provision and maintenance. Services and infrastructure can be classified into public, open access, joint use and private goods (Buchanan and Tullock, 1962; Mueller, 1979; Ostrom and Ostrom, 1977).

Public goods are those that are consumed jointly and simultaneously by many people, and from which it is difficult to exclude people who do not pay. Payment (usually through general taxes) for the goods is not closely related to demand or consumption, allocation decisions are made primarily by political processes, individuals generally have little or no choice about whether or not to consume them, and the quantity and quality of such goods are relatively difficult to measure.
Figure 1. Integrated political-economy framework for policy analysis

Characteristics of Local Goods and Services
- Public goods
- Open access goods
- Joint use or toll goods
- Private goods

Characteristics of Users
- Economic
- Social
- Political
- Behavioral

Institutional Structure of Service Use
- Rules of behavior
- Institutional patterns
- Demand for institutional change

Alternative Financing Arrangements
- General revenues
- Special levies
- Intergovernmental transfers
- User charges
- Co-production
- Assisted self-help
- In-kind and labor contributions
- Revenue from productive activities
- Cooperative savings and credit
- Lotteries and community fund raising activities

Organizational Alternatives for Decentralization
- Privatization
- Deregulation of service provision industry
- Devolution to local government
- Delegation to public or regulated enterprises
- Deconcentration of central government bureaucracy
Political Factors
Organizational and Administrative Factors
Social and Behavioral Factors
Financial and Human Resource Factors

Feasible Institutional Arrangements for Service Delivery
- Private businesses
- "Informal sector" enterprises
- Performance contracting
- Private voluntary organizations
- Cooperative and membership organizations
- Assisted self-help
- Public enterprises
- Local governments
- Market surrogates
- Subnational government units
- Central governments

Implementation Analysis
Feasible Policy Interventions
Policy Instruments

Policy dialogue
Project and program design
Financial and technical assistance
Evaluation
Open access goods are those from which people cannot easily be excluded and that are not jointly used — that is, the use by one group of people does not preclude their use or consumption by others. Examples of these types of goods are ground water, common pastures, fish-bearing lakes and rivers, and most natural resources.

Joint use or toll goods are those which can be provided on the basis of people's ability to pay; exclusion is usually feasible and the use is joint; that is, the use of the goods by one group of consumers usually precludes the use of the same goods by others. Utility services, some types of roads, electric power and other such services are joint use goods that can often be provided by market mechanisms.

Private goods are those that can be consumed by individuals. Those people who cannot or will not pay for them can easily be excluded. Allocation decisions are made primarily by market mechanisms. Payment for the goods is closely related to demand and consumption, and individuals have a good deal of choice about the kind and quality of goods they consume. It is relatively easy to measure the quality and quantity of these goods and to allocate per-unit and marginal production costs.

This classification of services can help policy analysts determine which of them can be provided by market mechanisms through user charges or individual payment, and which must be provided by public or collective organizations. The functional classification of goods and services can also help determine when market surrogates, co-production, or quasi-market mechanisms might be used to increase the efficiency of public organizations and how to establish the incentives for people to use collective goods more efficiently and responsibly. Analysis of the functional characteristics of services can provide strong clues about the need for deregulation of private provision of goods or the need to regulate markets to minimize or eliminate imperfections or social adversities (Bates, 1981).

2. Policy analysts must also understand the characteristics of service users. Although much of neoclassical economic theory is based on the assumption that people everywhere act on the basis of rational self-interest, human behaviour is subjectively rather than objectively rational. That is, interpretations or perceptions of rationality are conditioned by cultural, political and social factors that differ from country to country and even among groups of people within the same country. Political constraints, social taboos, religious principles and well-ingrained economic practices — even
inefficient ones — can restrict people from pursuing their concepts of rational self-interest.

Over long periods of time these restrictions shape people's attitudes, mould their behaviour in seemingly 'irrational' patterns, and influence the type and amount of service they demand. Studies of the behaviour of rural populations in developing countries with Islamic and Bhuddist cultures, for example, note that behaviour does not always conform to market-oriented assumptions of Western neoclassical economics. Keyes' (1983: 865) studies of Thai villages, for instance, found that 'although peasants do seek through rational calculation to maximize the well being of themselves and their families, they are constrained in doing so by particular political and economic conditions within which they live and also by the particular world of meaning in which their actions make sense'. Keyes concluded that for Thai Bhuddists 'the world is a moral universe in which individual desires, to employ Bhuddist language, are to be brought under control by moral reflection on whether one's actions cause suffering to others'.

For all of these reasons the political, economic, social and cultural characteristics of service users must be understood before alternative organizational and financial arrangements for decentralizing finance and management can be analysed effectively.

3. Another important aspect of policy analysis must be the identification and assessment of the institutional structure of service use, including the rules of behaviour of different groups of users, institutionalized patterns of service use, and the demand for institutional change. Advocates of the 'new institutional economics' reject the assumption of public choice theory that economic activity can be explained primarily by price-mediated transactions in markets, and insist that economic behaviour is also conditioned by the structure and operation of a wide range of economic and social institutions (Runge, 1984).

Many of the problems of providing and maintaining services and of dealing with overconsumption or overuse of public resources in developing countries arise from the failure of governments to detect common property institutions and to assume that a resource is unowned and therefore in need of government regulation. But research indicates that people in some developing countries have formulated and maintained detailed and effective regulations and rules of behaviour about the use of common resources and public
services, while in other countries the nature of open access and collective goods leads some groups to abuse them (McKean, 1986). It is crucial to understand these rules of behaviour before the potential for protecting resources and ensuring fair access to services through incentives or regulation can be determined.

Major questions that need to be addressed concerning alternative institutions for dealing with the management of common resources and public services are: (1) Who controls the management and rules that determine the timing and rate of use of resources? (2) Who is likely to receive benefits arising from a particular pattern of use or from changes in use patterns? (3) Who is likely to bear the costs arising from changes in institutional patterns of use? (4) What role can governments and private organizations play in reflecting social values in resource use? (Batie, 1984).

Other critical issues are how demand for institutional change can be initiated, how institutional changes can be made effectively, and how incentives for new forms of institutionalized behaviour can be used to sustain those changes. The emerging literature in the field of induced institutional innovation provides some insights into the dynamics of institutional change. Binswanger and Ruttan (1978) note that the demand for institutional change can result from a variety of sources including: increasing population pressure on existing resources; perceptions of deterioration in service quantity and quality or in resource availability; changes in relative factor prices and factor endowments; technological changes; improvements in the ability of society to supply institutional innovations; and changes in cultural endowments. They claim that shifts in the supply of institutional change are induced by advances in knowledge. Ruttan (1975) points out the intimate relationships between technological and institutional changes, and suggests that institutional transfer is easier in organizations whose operations are primarily concerned with applying a well-developed technology than in organizations that are not technology-centred. The capacity of new technology to generate new income streams represents an important source of demand for institutional change.

Analysis of the functional characteristics of services and users, and the institutional patterns of service and resource use, can help policy analysts deal with fundamental questions about investment in local services and infrastructure. These questions should focus on whether or not proposed investments are congruent with the desires, capacities and resources of the local population; whether or not
Decentralization Policies in Developing Countries

Demand is distorted by government regulations and processes; whether the community can sustain the investments and maintain them; whether public goods are being overproduced; and whether or not the distribution of costs for investments is consistent with the distribution of benefits (Nicholson, 1981).

Financing Local Services in Developing Countries

After the characteristics of services, users and institutional rules of behaviour are identified and analysed, alternative means of providing services more effectively and efficiently must be assessed. This requires an examination of alternative financing and organizational arrangements.

Financial responsibility is at the core of the concept of decentralization. Among the financing arrangements that should be considered are: (1) adoption of user charges; (2) application of betterment levies; (3) adoption of co-financing; (4) expansion of general revenue sources for public goods; (5) earmarking special revenues or funds from specific revenue sources such as tax charges, import duties, fees and fines, amusement or entertainment taxes or lotteries for rural infrastructure and services; (6) mobilization of government resources (through loan guarantees or subsidized credit) for borrowing by individuals to obtain services from private providers; (7) exchange of services or labour of beneficiaries in return for extension of services or infrastructure by local governments; (8) use of fiestas, community fairs, and the solicitation of ad hoc contributions and donations to raise funds for self-help service provision; and (9) creation of small-scale community productive activities to raise funds for services provision and infrastructure construction and maintenance (Rondinelli, 1986).

If decentralization is to have a real impact on enabling local organizations to provide services and infrastructure more effectively, both public and private local organizations must have stronger authority to raise revenues and to generate larger amounts of revenues. These conditions are not the same because in many countries local administrative units possess the legal authority to impose taxes, but the tax base is so weak or the dependence on central subsidies so ingrained that no attempt is made to exercise that authority.

Local income-generating activities can cover a wide spectrum,
from charging user fees for services to establishing an enterprise specifically devoted to raising funds for service provision. Personal property and real estate taxes, cesses on sellers and buyers in local markets, school fees, portions of income derived from locally marketed natural resources (e.g. forest products), and profits derived from industries owned and operated by local authorities are a few of the ways in which local organizations have been able to generate revenues. The Harambee self-help movement in Kenya demonstrated that large sums could be raised from poor rural people when projects clearly meet their needs and were implemented by local organizations (Rondinelli and Nellis, 1986). Introducing financial management and municipal development support in Nepal resulted in a 69 per cent increase in own-source revenue collections in the eight panchayats in which the project operated (McCullough, 1986). In Zaire, rural infrastructure in North Shaba is financed by Ponts et Routes Agricoles de l'Est (PRE), a local organization created by an internationally assisted rural development project that generated enough economic growth in the region to permit taxation without inhibiting merchants' willingness to invest in local enterprises (Goldensohn, 1986).

A wide range of possible financial sources and mechanisms is available at the local level in developing countries to pay for services and infrastructure without relying only on central government funds. The analysis of financial arrangements must be concerned with who pays, how the payment amount is determined, and what form the payment may take.

User charges are likely to become a major source of financing local services in developing countries for two reasons: one is that general revenues from central government treasuries are stagnating or committed to other types of expenditures of higher national priority, and the other is that general tax revenues of local governments can only be increased so much without a corresponding increase in service quality and quantity. User charges tie the amount paid directly to the amount of a service a consumer uses. User charges can also reflect differences in ability to pay by incorporating sliding scales for type of user or amount of usage. User fees have other benefits beyond raising revenues. Committing resources usually makes the contributors more concerned with the success of development investments. These commitments can be either in cash or in kind, and can be generated through membership fees, quotas determined by family size, or some form of recycling of benefits.
In addition to user fees, there is considerable scope for improving the effectiveness of local tax collections. Numerous studies indicate that local governments in developing countries collect as little as 40–60 per cent of the revenues actually owed to them (Johnson et al., 1983; Johnson, 1984, 1985, 1986).

Although the need to decrease them is one of the primary incentives for decentralization, central government transfers are still a major element of financing local services and infrastructure (Johnson, 1985; Prakash, 1988). Transfers can take many different forms and there are often great discrepancies between the formal allocation formulas and the actual transfers. In general, transfers can be made on a shared-tax basis (returning some portion of a centrally collected tax to the jurisdiction), a formula grant, an ad hoc grant, or a reimbursement grant for certain specific types of expenditures.

At least in the early stages of decentralization, policy analysts will have to assess more effective means of promoting intergovernmental transfers in the form of block grants, vouchers, special-purpose grants and local budgetary support to encourage the decentralization of service provision from central to local governments and private organizations, since the driving force behind decentralization in many developing countries is the need to reduce subsidies to parastatal enterprises (Nellis, 1986; Shirley, 1983). The critical issue is how to arrange the necessary central government support so that the local community retains the sense of ownership and, hence, responsibility for maintenance.

Another important means of recovering costs or of increasing the capacity of people to pay for services in poor communities is to extend services that involve or promote employment for community residents (Rondinelli, 1986). Using labour-intensive methods of construction and paraprofessional staffing can often involve the beneficiaries themselves in service provision and infrastructure maintenance (Esman et al., 1980).

Finally, the need and demand for additional revenue can be reduced by improving service delivery performance. As noted earlier, little attention has been paid to the efficiency of local government expenditures in developing countries, although this aspect of service delivery is as critical as revenue-raising in extending services effectively. Field studies have found that the bulk of local government expenditures goes for personnel costs, and that much of the labour expenditure is unrelated to the provision of services.
Increasing attention by international assistance organizations to the efficiency of local expenditures is leading to efforts to improve the quality and quantity of local services relative to costs through performance management assessments and management improvement programmes (Johnson et al., 1986; Johnson, 1987).

Organizational Arrangements for Decentralization

There are five major organizational forms of decentralization that policy analysts must assess and compare. These are privatization, deregulation of private service provision, devolution to local government, delegation to public enterprises or publicly regulated private enterprises, and deconcentration of central government bureaucracy. For each organizational form several institutional alternatives may be feasible.

1. Privatization and Deregulation

There is a growing interest among governments in developing countries in privatizing many services and facilities that they now provide. Through privatization and deregulation some governments have divested themselves of responsibilities for functions either by transferring them to voluntary organizations or by allowing them to be performed by private businesses (Cheema, 1983; Roth, 1987a). In some cases governments have transferred responsibility to 'parallel organizations' such as national industrial and trade associations, professional groups, religious organizations, political parties or cooperatives (Rondinelli and Nellis, 1986). These parallel organizations have been given responsibility to license, regulate or supervise their members in performing functions that were previously performed or regulated by the government (Leonard and Marshall, 1982).

Private voluntary organizations can play a crucial role in expanding access to services and infrastructure. Voluntary organizations in Sri Lanka, for example, have come to play an important role in delivering services to meet basic human needs. They run daycare centres, nursery schools, health clinics, homes for destitute children, and old-age homes, and provide vocational training, non-formal education, and sports and recreation programmes. They operate rural development projects and community self-help
programmes that provide social overhead capital — roads, water tanks, irrigation, canals, sanitation facilities, and wells. Many provide working capital for local, small-scale agricultural and handicraft projects, and market outlets for the goods produced in villages (James, 1982).

Maintenance of irrigation channels and equipment in the Philippines has been done successfully by Irrigation Service Associations, composed of small-scale farmers who are willing to make productive investments in the land they cultivate (Steinberg, 1980). There is growing evidence that, with appropriate inducements, road maintenance and other local services can be performed by community associations more efficiently than by an overburdened central government (Roth, 1987b; Anderson and Vandervoort, 1982). Matching grants or other inducements can be used to persuade property owners to form associations held together by deed-based covenants.

Local governments also privatize by contracting out some government administrative functions. This approach holds great potential for lowering the current operating expenditures of local governments since personnel costs tend to be the largest expenditures in operating budgets. In Nepal, many town governments already use private contractors to collect local taxes (McCullough and Stuebner, 1985). In Jordan, some cities auction off the right to collect market taxes (McCullough, 1985) and in Tunisia and in Sri Lanka, municipal markets are rented under tender to private merchants on an annual basis (Minis and Johnson, 1982; McCullough, 1984). Local governments in some developing countries are turning to private consulting firms to fill technical positions such as engineer and accountant, since local government pay levels are often too low, and skilled professionals may not even be available. For these reasons, local authorities in Sri Lanka are considering using local accounting firms to run many of their financial management activities (McCullough, 1984).

Small individual or family-run 'informal' enterprises can also provide a significant number of local goods and services, particularly to lower-income users (Montgomery, 1988). Small-scale entrepreneurs can be used effectively in such activities as road maintenance (World Bank, 1981; Cook et al., 1985). Local roads projects in Kenya, for example, make heavy use of individuals and informal sector enterprises in road construction. Maintenance is also carried out by individual workers — both men and women — under
performance contracts supervised by road engineers (Anderson and Vandervoort, 1982).

Performance contracting can be most effective in situations where efficiencies in service provision arise from economies of scale, where greater productivity can be obtained from hired labour or professionals than from the civil service, and where contractors can make use of part-time labour or less labour-intensive methods of operation. Private contractors are often free from the severe labour practice restrictions of civil service regulations and seek minimum-cost approaches to service delivery in order to maximize their profit margins (Ferris and Graddy, 1986; Roth, 1987a).

2. Delegation

In some cases, government may decentralize by shifting responsibility for producing goods and supplying services that were previously offered by central government agencies and ministries to parastatal or public corporations or to publicly regulated private enterprises. More often, government transfers responsibilities to organizations representing specific interest groups in society and that are established and operated by members of those organizations (Uphoff and Esman, 1974). These include farmers’ cooperative organizations, trade unions, or women’s and youth clubs (Ralston et al., 1981; Esman and Uphoff, 1984; Uphoff, 1986).

Often the organizations to which public functions are delegated have semi-independent authority to perform their responsibilities, and may not be located within the regular government structure. Functions are being delegated from central ministries to public corporations, regional planning and area development authorities, multi-purpose and single-purpose functional authorities, and project implementation units in many developing countries. Delegation implies the transfer or creation of broad authority to plan and implement decisions concerning specific activities — or a variety of activities within specific territorial boundaries — to a semi-autonomous public or private organization that is technically and administratively capable of carrying them out (Rondinelli, 1979, 1981). The response of many governments to the severe limitations on public administration capability and financial resources in much of the third world has been to delegate more functions to public corporations and special authorities. The experience of such organizations is mixed, however, and in many countries governments
are now trying to dismantle some of those parastatal 'empires' (Nellis, 1986; Shirley, 1983; Jones, 1982).

3. Devolution
Service provision and maintenance can often be improved by devolving responsibilities to local governments or administrative units (Mawhood, 1983; Friedman, 1983). Devolution requires that local governments be given autonomy and independence, and be clearly perceived of as a separate level over which central authorities exercise little or no direct control. Local governments should be given clear and legally recognized geographical boundaries over which they exercise authority, and within which they perform public functions. Devolution is an arrangement in which there are reciprocal, mutually benefiting and coordinate relationships between central and local governments; that is, the local government has the ability to interact reciprocally with other units in the system of government of which it is a part (Sherwood, 1969).

Nigeria devolved a wide range of statutory local functions such as maintenance of law and order, construction and maintenance of public roads and bridges, formulation and implementation of rural development schemes, agricultural development and the provision of health, water and housing to local governments in 1976 (Kolawole, 1982; Okafor, 1982). Local governments then became the only legally recognized level of government below the state level. Some local council members are elected directly and others are appointed by state governors. Both the federal and state governments are required annually to make statutory grants from their budgets to local governments. Localities also have some powers to raise their own revenues, but these are limited (Smith, 1982).

4. Deconcentration
Some types of public goods can only be provided effectively by government, either at the central level or by some agent of the central government at the field or local level. These are often 'network'-based services that require large investments in capital equipment, and that must be linked together in a system in order to operate effectively, those that have high political saliency or sensitivity, those from which a politically important group such as the poor or a minority would be excluded if they were provided privately, or those with strong implications for public health, safety or welfare (Montgomery, 1988).
If central government leaders are unwilling to decentralize services, analysts must be prepared to assess how central governments or their subnational agents can provide the services more efficiently and effectively. Even for the public goods and services that must be provided by central government, however, there are institutional arrangements that help to make service delivery more responsive to users’ needs, and the delivery process more efficient and effective. The least extensive form of decentralization, but an important step in highly centralized countries, is to deconcentrate central government institutions. In its weakest form deconcentration merely involves the shifting of workload from central government ministry headquarters to staff located in offices outside of the national capital. The 1985 earthquake in Mexico City, for example, hastened an existing programme to relocate many central government agencies outside of the capital in order to deconcentrate activities as part of an overall decentralization policy (World Bank, 1986). In highly centralized governments even shifting workload can be a crucial first step that allows agencies to learn to be more responsive, and can lead to greater decentralization later. More extensive forms of deconcentration include creating field offices for national agencies and establishing local or provincial administrative units (Rondinelli, 1981).

Those local services over which the central government retains control for political reasons can often be improved through ‘market surrogate’ arrangements. A market surrogate approach has been defined as one that seeks to improve performance in public sector institutions by institutional reforms or designs which offer some important efficiency elements of markets — which increases incentives by enhancing competition, choice and accountability — in a nonmarket setting (Lamb, 1982). Market surrogate strategies can have two major components, one that alters the competitive environment in which an organization must operate so that pressures are greater for it to improve its service delivery in order to survive; the other that rearranges conditions within the organization so that internal incentives reinforce the competitive pressures from the external environment (Roth, 1987a).

**Analysis of Socioeconomic and Political Factors Affecting Policy Implementation**

The ability of governments to implement any of the alternative financial and management arrangements described earlier depends
on the existence of, or the ability to create, appropriate political, administrative, organizational and behavioural conditions (Rondinelli, 1981). The following factors affect the implementation of decentralization programmes in developing countries (Rondinelli et al., 1983):

1. Research indicates that successful implementation of decentralization policies depends heavily on political factors. Strong political commitment and support must come from national leaders to transfer planning, decision-making and managerial authority to field agencies and lower levels of administration, or to the private sector. Political leaders must be willing to accept the participation in planning and management of local organizations that are outside the direct control of the central government or the dominant political party. Support of, and commitment to, decentralization must also come from line agencies of the central bureaucracy, and central government officials must be willing to transfer functions previously performed by them to local organizations. Decentralization usually requires strong administrative and technical capacity within central government agencies and ministries to carry out national development functions and to support — with adequate planning, programming, logistical, personnel and budget resources — their field agencies and lower levels of government in performing decentralized functions. Finally, effective channels of political participation and representation must be developed that reinforce and support decentralized planning and administration, and that allow citizens, and especially the poor, to express their needs and demands and to press claims for national and local development resources.

2. Organizational factors conducive to decentralization include the appropriate allocation of planning and administrative functions among levels of government and local organizations with each set of functions suited to the decision-making capabilities of each level of organization. Decentralization requires laws, regulations and directives that clearly outline the relationships among different levels of government and administration, the allocation of functions among organizational units, the roles and duties of officials at each level, and of cooperative and private organizations, and their limitations and constraints. Decentralization must be supported by flexible legal arrangements, based on performance criteria, for
reallocating functions as the resources and capabilities of local organizations change over time. Clearly defined and relatively uncomplicated planning and management procedures for eliciting participation of local leaders and citizens — and for obtaining the cooperation or consent of beneficiaries in the formulation, appraisal, organization, implementation and evaluation of service provision programmes — are also needed.

3. **Behavioural and psychological conditions** supporting decentralization include appropriate attitudes and behaviour of central and lower-level government officials towards the decentralization of service provision and maintenance, and a willingness on their part to share authority with citizens and accept their participation in public decision-making. Effective means must be found for overcoming the resistance, or getting the cooperation, of local elites and traditional leaders. A minimum level of trust and respect must be created between local organizations and government officials, and a mutual recognition that each is capable of performing certain functions and participating effectively in various aspects of financing and management. Strong leadership must be developed within local organizations and private enterprises that will allow them to deal effectively with local and central governments.

4. **Financial and human resource** factors required for decentralization include granting sufficient authority for local units of administration or government, cooperative and private organizations to obtain adequate financial resources to acquire the equipment, supplies, personnel and facilities needed to fulfil decentralized responsibilities.

Ultimately, the success of decentralization policies hinges on institutional capacity-building. The institutional capacity of local public and private organizations to finance and manage service provision and maintenance, and of central governments to facilitate and support decentralization, must be strengthened (Rondinelli, 1978, 1981, 1982; Leonard, 1983; Uphoff, 1986). In general terms, capacity may be defined as the ability to anticipate and influence change, make informed decisions, attract and absorb resources, and manage resources to achieve objectives (Honadle, 1980; VanSant et al., 1987).
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Policy and Programme Implementation Analysis

Policy analysts must find the best combination of feasible policy interventions to facilitate and support the decentralization of service provision, financing, and management. Among the options are changes in national government regulations and policies, local capacity building, training, financial assistance, technical assistance, and support of private-sector development.

Often, decentralization can be initiated simply by creating sets of preconditions — through prices, subsidies and rewards — that induce local officials and organizations to finance and manage services and infrastructure. International organizations can provide assistance for decentralization most effectively by helping to build the capacity of local administrative units and private enterprises. The most urgent needs of African countries, for instance, are for personnel training in managerial and technical skills and for generating local financial resources (World Bank, 1981). The need for personnel training is especially urgent at the provincial and district levels in most African and Asian countries (Rondinelli, 1987), and at the municipal level in Latin and Central American countries (Ozgediz, 1983).

An important challenge for policy analysts will be to identify and test instruments for implementing decentralization policies and programmes that rely less on central control and more on incentives and exchange. A variety of instruments for policy intervention should be assessed, including information dissemination and persuasion, advice and consultation, demonstration projects and programmes, incentives and rewards, bargaining and negotiation, coalition building, mutual adjustment, coordination of existing activities, subsidization, authoritative prescription, and command (Lindblom, 1965; Olson, 1965; Mehrabian, 1970; Rondinelli, 1975, 1976).

The state of knowledge about how to implement institutional changes is still weak, and here political and organizational theories can be quite useful. Downs (1967) has generated a number of propositions about the dynamics of change in bureaucratic institutions. He contends that institutional change is more likely to occur in organizations with more unstable environments, and in which there is weak consensus about what they should be doing. Downs claims that the larger the institution the more reluctant it will be to adopt changes, and that small institutions tend to be more flexible and
innovative than larger ones. Leaders of institutions tend to oppose changes that cause a net reduction in the amount of resources under their own control, or decrease the number, scope, or relative importance of the social functions entrusted to them. Rivalry or competition among institutions, however, can generate creativity that leads to innovation and change.

Institutional economists correctly point out that it is necessary to understand not only the functional characteristics of institutions, but also their history of evolution. Nelson and Winter (1982) argue that the capabilities and rules of institutions change over time as a result of both deliberate problem-solving and random events. Unless policy analysts understand the evolution of institutions and the causes of past changes in capabilities and rules they cannot prescribe feasible institutional changes.

Political theory also provides useful insights into the relationships among interest group behaviour, institutional change and decision-making on issues that will be decided by political processes. Lowi’s (1972) work on differentiating the types of political interaction and the relationships among interest groups on various policy issues offers guidelines for implementation analysis in developing countries. He notes that different types of interest groups become involved and interact with each other in different ways on distributive, regulative, constituent, and redistributive policies. Classifying the policy arenas in which issues will arise is critical to understanding how interest groups might behave, and which groups are likely to participate, but little work has been done thus far on testing the applicability of these categories and the propositions derived from them in developing countries (Grindle, 1980; Cleaves, 1980). The political dimensions are crucial because even in non-democratic regimes decisions made about institutional change result not from rationalistic calculation but from political bargaining and negotiation. The implications of the trade-offs between economic and political rationality must be analysed carefully, and the implications for designing decentralization policies and programmes must be given special attention. Information dissemination, educational, and persuasion techniques are often more effective than threats, pressures and punishments in eliciting cooperation and generating innovative approaches to problem-solving. But central government and local officials in many African and South Asian countries have a long tradition, stemming from colonial experience, with the latter
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methods of governance and little experience or knowledge of the former (Rondinelli, 1982, 1983).

CONCLUSION

In brief, the growing interest of governments in developing countries in decentralizing the provision, financing and maintenance of local services and infrastructure will require a more comprehensive and integrated framework for policy analysis than is offered by either neoclassical economic theories or public administration and finance theories. An integrated political-economy framework that draws from the most useful aspects of each set of approaches can provide policy analysts with a more powerful set of concepts and methods for designing and implementing decentralization policies more effectively. Such a framework can help analysts to understand better the characteristics of services; their users and institutional rules of behaviour; the feasibility of alternative financing and organizational arrangements; and the political, economic, administrative and financial factors that affect policy outcomes; and to assess alternative strategies for policy implementation.

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