

**AN INTRODUCTION TO DECENTRALIZATION,  
MULTI-LEVEL GOVERNANCE  
AND INTERGOVERNMENTAL RELATIONS:  
A TOOLKIT FOR INTERGOVERNMENTAL ARCHITECTURE  
ANALYSIS**

**WORLD BANK  
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# 1. Decentralization, multi-level governance and intergovernmental relations: why and what?

The primary objective of this note on decentralization and intergovernmental relations is to enable World Bank task teams to systematically identify the strengths and weaknesses of a country's approach(es) to decentralization and to leverage, whenever possible, a country's intergovernmental systems in order to improve the effectiveness of the public sector's performance in achieving public sector results.

Section 1 provides an overview of the topic by identifying why countries pursue decentralization (Section 1.1); by establishing a common vocabulary around the topic (Section 1.2); by providing a conceptual framework for assessing decentralization and the effectiveness of the local public sector (Section 1.3); and by acknowledging the context-specific nature of decentralization as a public sector reform (Section 1.4).

Section 2 recognizes that decentralization is not a one-size-fits-all reform and provides an overview of global decentralization experiences by placing country practices within a spectrum of intergovernmental institutional and fiscal arrangements. Section 3 highlights the importance of understanding the political economy of decentralization and intergovernmental relations. Finally, Section 4 highlights some issues to consider for task teams seeking to promote resilient, inclusive, sustainable and efficient development in the context of a decentralized multi-level governance system.

## 1.1 Why decentralization?

Decentralization—the transfer of authority, responsibility and resources over public function from the central government to local governments or other local entities—is one of the most significant public sector reforms pursued by countries around the world.<sup>1,2</sup> Over the past 25 years, countries on every continent have pursued substantial decentralization reforms or reformed their intergovernmental fiscal architecture.

Like any public sector intervention, there are pros and cons to decentralization as a public sector reform. While the specific impetus for pursuing decentralization reforms varies from country to country, the motivation behind decentralization reforms is often formed by one or more of the following four arguments:

- **Efficiency.** A first motivation for decentralization is that centralization is likely to be inefficient. While central government organizations often possess greater institutional capacity than local government organizations, centralization as a system provides a rather inefficient one-size-fits-all approach to taxation and public service delivery. Under the right circumstances, decentralization can improve the

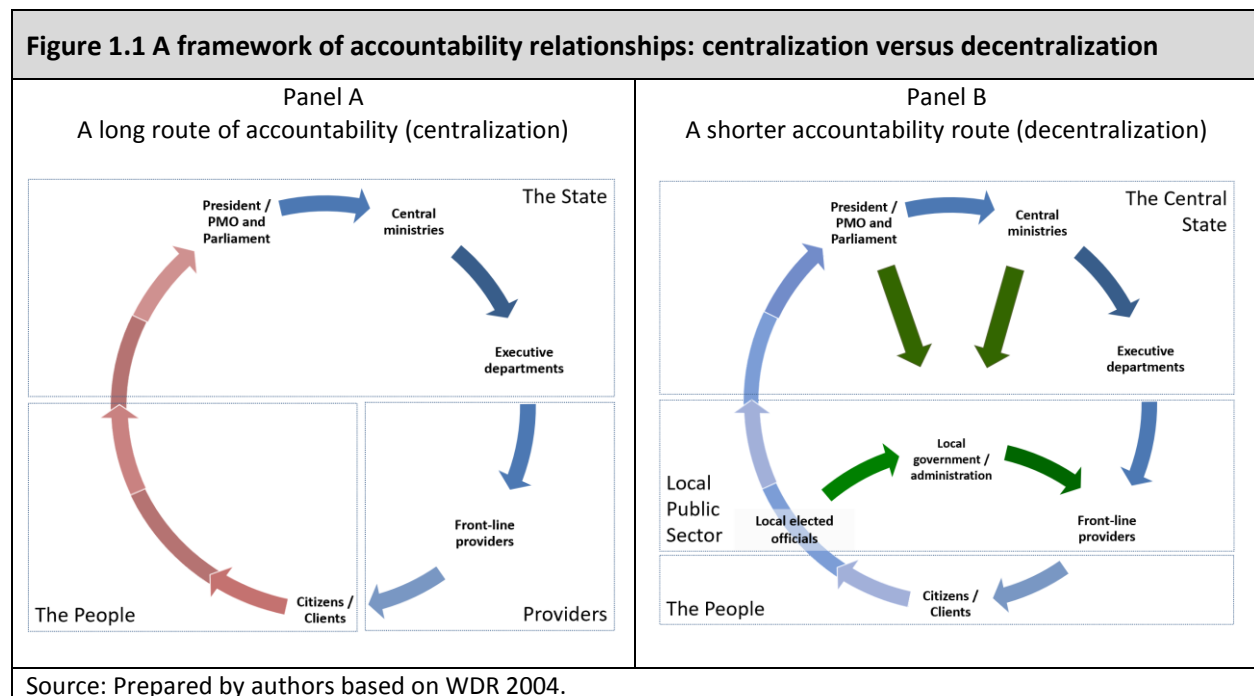
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<sup>1</sup> Unless otherwise noted, when referring to government levels, this note will use the terms “local” and “subnational” interchangeably. When used in a more precise manner, local governments are often defined as governments at the lowest level(s) of the territorial-administrative hierarchy, whereas regional or state governments are frequently positioned as an intermediate territorial-administrative level.

<sup>2</sup> The term “central government” refers to the national government in a unitary country or to the federal government in a federal country. The distinguishing feature of a federal country (compared to a unitary country) is that in a federal system some of the powers or rights of subnational governments are protected in the Constitution or Basic Law, in a way that cannot be unilaterally undone by the national government. Other than this distinction, all concepts and principles related to decentralization apply equally to federal and unitary countries.

allocative (and technical) efficiency of the public sector by tailoring taxes and the provision of public services more closely to the preferences of residents in different regions and localities.

- **Inclusiveness and responsiveness.** Second, central government inefficiencies tend to be aggravated by the distance between the people and public sector decision-making, while decentralization tends to bring the public sector closer to the people (Figure 1.1). In particular, the establishment or increased reliance on democratically elected local governments can enhance the effectiveness of the public sector as a mechanism for inclusive and responsive collective decision-making.
- **Restructuring of political economy forces.** Third, decentralization reforms involve changes in the vertical and horizontal distribution of power and resources and are therefore influenced by political economy considerations. While political economy considerations are relevant to decentralization reforms in every country, it is not uncommon for the restructuring of intergovernmental relations to be a specific aspect of peacebuilding and state-building in fragile and (post-)conflict countries. In these cases, decentralization reforms are specifically pursued to increase political competition and encourage political pluralism by creating subnational political space and by reducing the political monopolization of the public sector by a ruling party.<sup>3</sup>
- **Sustainable development and improved public service delivery.** Finally, in countries around the world, most of the pro-poor public services that are required to achieve sustainable global development—education, health services, access to clean water and sanitation, and so on—are delivered at the local level. As such, sustainable development interventions and service delivery have important—but often overlooked—local and intergovernmental dimensions.



A caveat should be placed upfront in any discussion of decentralization and intergovernmental (fiscal) relations: while in a multi-level public sector context, decentralization presents an *opportunity* to improve

<sup>3</sup> As noted further below, however, decentralization reforms are a pendulum. As such, intergovernmental systems can also be re-structured in order to increase the vertical power of the national ruling party or the national government as a whole based on political or political economy considerations.

the efficiency of the public sector by moving public sector decision-making closer to the people, the reform in no way *guarantees* greater allocative and technical efficiency or greater accountability. Decentralization is not a panacea by itself, and by itself does not eliminate the capacity constraints, weak accountability relationships and other public sector management challenges faced within the public sector. At the same time, however, it is unlikely that the weak front-line performance of the public sector in any country (regardless of its public sector structure) can be resolved without acknowledging the important role of the country's vertical or intergovernmental (fiscal) architecture and relations.

## 1.2 Decentralization: Key concepts and definitions

The literature on decentralization, (fiscal) federalism and local government finance has its foundations in works by political scientists and economists including Paul Samuelson (1954); Charles Tiebout (1956); Ursula Hicks (1961); James Buchanan (1965), Mancur Olson (1965), Wallace Oates (1972), and Dennis Rondinelli (1981). Decentralization is an evolving concept, however, and its role in public sector management and development is increasingly well-understood, including due to more recent efforts by scholars and policy practitioners including Roy Bahl and Richard Bird (2018); Barry Weingast (2009); Paul Smoke (e.g., 2011; 2018); Leonardo Romeo, and Dorothee Allain-Dupré (2018).

Traditional definition of decentralization. Although there is no single consensus definition of decentralization, most "traditional" definitions are derived from the definition posited by Dennis Rondinelli (1981; 1999), who defined decentralization as the

*"the transfer of authority and responsibility for public functions from the central government to subordinate or quasi-independent government organizations or the private sector."*

or in a more detailed manner as

*"transfer of [authority and] responsibility for planning, management, resource-raising and -allocation and other functions from the central government and its agencies to (a) field units of central government ministries or agencies, (b) subordinate units or levels of government, (c) semi-autonomous public authorities or corporations, (d) areawide, regional or functional authorities, or (e) nongovernmental private or voluntary organizations."*

Although there are slight variations among Rondinelli's definitions of decentralization over the years, the core concept of decentralization involves the transfer of authority, responsibility and resources **away** from the central government towards more localized actors.

Types and dimensions of decentralization. Professor Rondinelli's definition implies that there are several different types of decentralization, depending on the nature of the *intended recipient* of the authority or responsibility that is being decentralized, including:

- **Deconcentration:** the transfer of authority, responsibility and resources from the central government to field administration of central government ministries or agencies (i.e., within the central bureaucracy);
- **Delegation:** the transfer of authority, responsibility and resources from the central government to semiautonomous or quasi-public corporations (and the assignment of delegated functions to nongovernment organizations that are ultimately still accountable to the center); and

- **Devolution:** the transfer of authority, responsibility and resources from the central government to (elected) local governments.

In addition, decentralization can be segmented is by the *nature or type of power* that is being decentralized, resulting in three dimensions of decentralization:

- **Political decentralization:** the transfer of political authority and (oversight) responsibility from the central government to subordinate or quasi-independent government organizations;
- **Administrative decentralization:** the transfer of administrative authority and responsibility from the central government to subordinate or quasi-independent government organizations; and
- **Fiscal decentralization:** the transfer of fiscal authority, responsibility and resources from the central government to subordinate or quasi-independent government organizations.

The need for balance between different dimensions of decentralization. While the three main dimensions of decentralization can be considered in isolation in order to allow for more in-depth analysis, there are clear and strong inter-linkages between these different dimensions (e.g., see Figure 1.2 further below). The multi-level governance literature suggests that public sector outcomes or results can be achieved by more centralized as well as by more decentralized public sector arrangements, but that—regardless of the extent of (de)centralization—public sector effectiveness in a multi-level governance context requires that each of these three dimensions are (a) well-structured and internally coherent, and (b) balanced with the other two dimensions (Boex and Simatupang 2015; OECD 2019). For instance, in order for the benefits of devolved public service delivery to materialize, local governments would need to be assigned a reasonable balance of political, administrative as well as fiscal powers. By contrast, assigning local governments with extensive fiscal powers and resources would be unlikely to achieve better service delivery outcomes in the absence of sufficiently decentralized political or administrative authority.

Inconsistent application of definitions and understanding of the concept. Unfortunately, the traditional definitions of decentralization are not universally understood or applied outside the immediate Community of Practice on decentralization and are not always consistently applied even within the literature. The inconsistent use of terminology tends to cause confusion and takes away from the consistency of Rondinelli’s definitions.<sup>4</sup>

Perhaps the most common source of confusion is the interchangeable use by some of the terms “decentralization” and “devolution”. It is not unusual, for instance, for Cabinet to approve a Decentralization Policy or law which spells out a series of decentralization reforms empowering local governments over a number of sectoral functions (i.e., devolution reforms), only for sectoral ministries to implement a series of “sectoral decentralization” reforms by which the ministries empower their own lower-level administrations or front-line service delivery facilities through deconcentration or delegation.<sup>5</sup>

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<sup>4</sup> Two common inconsistencies in terminology are, first, to equate devolution and political decentralization, and second, to equate deconcentration and administrative decentralization (Boex 2012). While political decentralization is an important dimension of devolution (without which in would be impossible to have an effective devolved system), these two terms do not share the same meaning. Likewise, while administrative decentralization is an important dimension of deconcentration (without which in would be impossible to have an effective deconcentrated system), these two terms do not mean the same thing,

<sup>5</sup> As one example among many, this was the case during the implementation of Nepal’s Local Self-Government Act (1999). Despite the fact that the legislation clearly empowered local government bodies over primary education, the Ministry of Education transferred the responsibility for the operation of primary schools to facility-level school

As these different types of decentralization reform are very different in nature, it is critical to clearly identify which specific type of decentralization is actually to be pursued.

**Box 1. What is a local government?**

Devolution is defined as the transfer of authority, responsibility and resources from the central government to local governments. Thus, in order to have a clear understanding of the meaning of devolution, it is important to clearly define local governments (as opposed to, for instance, deconcentrated local administration entities).

Although there is no single consensus definition of local governments, local governments are often understood to be defined by the four characteristics. Local governments are: (1) a separate legal entity or body corporate; (2) with authoritative decision-making power over one or more public functions in a local jurisdiction (i.e., with its own political leadership); (3) with control over its own officers and staff; and (4) responsible for preparing and executing its own budget (e.g., WDR 2004; PEFA 2013).

Local governments may be formed at one or more levels of territorial administration; may have different legal status in urban versus rural areas; and may go by different names on different countries (including local governments, local authorities, local councils, district governments, municipalities, communes, and so on). Some countries recognize two types of local governments: general-purpose local governments versus special-purpose local governments. Whereas general-purpose local governments have a broad range of functions or responsibilities, special-purpose local governments typically only have functional responsibility over a single function, such as water boards in the Netherlands or school districts in the United States.

There is no absolute dividing line between what is a local government and what is not. For instance, based on the characteristics defined above, not all entities traditionally accepted as local government adhere closely to all four characteristics.<sup>6</sup> In other cases, depending on their adherence to the characteristics noted above, some types of local entities (such as local school committees) may be considered (quasi-) local government authorities.

From decentralization to multi-level governance. During the second half of the twentieth century, decentralization (and devolution, in particular) was a dominant public sector reform around the world, particularly in post-colonial developing countries in Africa and Asia. Similarly, decentralization was an important part of public sector reforms in formerly centrally planned economies and other authoritarian regimes that sought to transition away from central planning and central government dominance to more decentralized, market-based economies. Use of the term “democratic decentralization” was especially common in the decade after the collapse of the Berlin Wall (e.g., Manor 1999; Crook and Manor 2000). Indeed, the twentieth century culminated with a string of decentralization reforms around the world focused on democratization, including major decentralization reforms in the Philippines (1991), the Russian Federation (1993), South Africa (1993) and Indonesia (1999).

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committees (while retaining authoritative decision-making and resource-distribution powers at the ministerial level), based on the argument that the school committees were “closer to the people” than the elected local governments.

<sup>6</sup> For instance, municipalities in Afghanistan lack an elected mayor or council, but are nonetheless viewed as being local governments. In the Netherlands, while the municipal council is elected, the Mayor is appointed by the central government. In other countries, such as in Uganda, local governments lack an independent budget or control over their own officers and staff. In fact, it is quite common in many countries for local governments to be (largely) staffed by officers seconded by the central government.

Despite its continued importance as a major public sector reform, the momentum of decentralization reforms around the world has waned somewhat during the first two decades of the new millennium. Within the global development community, attention shifted from the (largely politically-driven) decentralization reforms of the 1990s towards a greater sector focus based on the Millennium Development Goals (MDGs). While major decentralization reforms continued to be introduced in countries such as Kenya (2010) and Nepal (2015), other countries—such as the Russian Federation, and other countries in Central and Eastern Europe—experienced a degree of re-centralization.

To some extent, the increased focus on development results—first under the MDGs, and now, under the Sustainable Development Goals (SDGs)—has been accompanied by a shift in tone when speaking about decentralization. Whereas (democratic or political) decentralization was seen by some as a goal in its own right, decentralization is increasingly understood as a means to an end, whether that goal is greater public sector efficiency; a more inclusive and responsive public sector; greater political empowerment; or better service delivery results.

The World Development Report 2004 (“Making Services Work for Poor People”) was an important inflection point in the global policy debate surrounding decentralization. Prior to this point, decentralization (or more specifically, devolution) was generally pursued as a governance-motivated reform, and the main binding constraint to successful devolution was seen to be the capacity of local government institutions (see Box 2). WDR 2004 articulated the more nuanced notion that decentralization is a multi-level governance reform that has the potential to improve public sector performance by shortening the “long route of accountability” between people, central government policy makers and providers, but explicitly recognized that decentralization is not a one-size-fits all solution. Instead, in order to achieve the effective delivery of (pro-poor) public services in a multi-level public sector, simultaneous interventions would be required at three levels: empowering intergovernmental systems; effective, inclusive and responsive local institutions; and an engaged civil society, citizenry, and private sector. The WDR (2004: 75) further explicitly acknowledged that under different stages of economic and democratic development—resulting in different degrees of client empowerment—different approaches to decentralization and localization would be appropriate.

#### **Box 2. What is local government capacity?**

The most common argument against devolution in developing and transition countries is that local governments “lack capacity”. An organization’s capacity could be defined as **the ability of that organization to achieve its overall objectives or mission**. This definition is quite broad and could be applied to any organization, regardless whether the organization is an NGO, a business organization, or a government agency. For a local government, achieving its mission generally means creating value for its constituents (voters, residents, taxpayers) by providing public services and by serving as a platform for communal decision-making.

Conceptually, an organization’s capacity therefore describes a relationship between how the organization functions internally, as well as how effectively it relates to stakeholders within and outside the organization. The organization’s effectiveness is measured on one hand by whether (or to what extent) the organization is able to secure inputs that it needs in order to achieve its objectives, and on the other hand, by whether it is able to achieve the outcomes that it is pursuing through the outputs it is producing.

Organization capacity requires five specific organization capabilities. First, as an organization, local governments must be able to commit and act (i.e., have the ability to make binding decisions). Second, local governments must have the capability to carry out functions or tasks (to “deliver”) through the necessary administrative processes and procedures (including human resource management; procurement; planning; financial management; service

delivery management; and so on). Third, they must be able to achieve a certain degree of coherence within the organization. Fourth, in order to be effective, organizations must be able to relate to external stakeholders (to attract resources and support), including from their constituents as well as from other government level. Finally, local governments must be able to adapt and self-renew, in order to respond to changes in the local government internal or external environment.

This concept of capacity implies that institutional capacity development is largely an endogenous process of organizational strengthening which requires organizations, first, to have a minimum starting level of institutional capacity, and second, to be self-motivated to survive and prosper. In turn, this means that the interventions of outside capacity developers can only make contributions where this complements the interests and motivations of the organization itself.

Source: [Buis and Boex \(2015\)](#).

The conceptual evolution in thinking about decentralization was accompanied by an evolution in the terminology used to discuss decentralization and intergovernmental relations. Whereas the terminology and definitions of decentralization are seen by some to imply a value-judgement that more decentralization is better, some global development actors—including some UN agencies and ULCG—increasingly speak of “localization”, especially when it comes to the localized achievement of the SDGs. Similarly, Boex (2013) adopted the more neutral terminology of the “local public sector”, while others consider the “territorial approach to local development” and “community-led development” (EU/Romeo; THP).

Researchers and practitioners also increasingly use the term “multi-level governance” to refer to different aspects of intergovernmental (fiscal) relations, recognizing that public services are often co-produced by stakeholders at different government levels, often simultaneously relying on different approaches to decentralization or localization, even within the same sector. In turn, the effectiveness of subnational governments is largely defined by the nature of multi-level governance arrangements and by the institutional background of the stakeholders at different government levels (OECD 2011; Enderlein, Wälti and Zürn 2011).

In this context, the key underlying question is not necessarily whether “countries should decentralize or not” or even “what model of decentralization should be followed”, but rather, that public sector effectiveness requires practitioners to focus on identifying ways to improve capacity and coordination among public stakeholders at different levels of government to increase efficiency, equity and sustainability of public spending in the context of a multi-level public sector (e.g., Charbit 2011; OECD 2019).

Emerging alternate definitions. In line with this evolving view of decentralization, Roy Bahl (2005) offered—by way of alternative working definition for decentralization—that the concept entails “the empowerment of people by the empowerment of their local governments”. This formulation was slightly generalized by Boex and Yilmaz (2010) to suggest that **“decentralization is the empowerment of people through the empowerment of the local public sector.”**

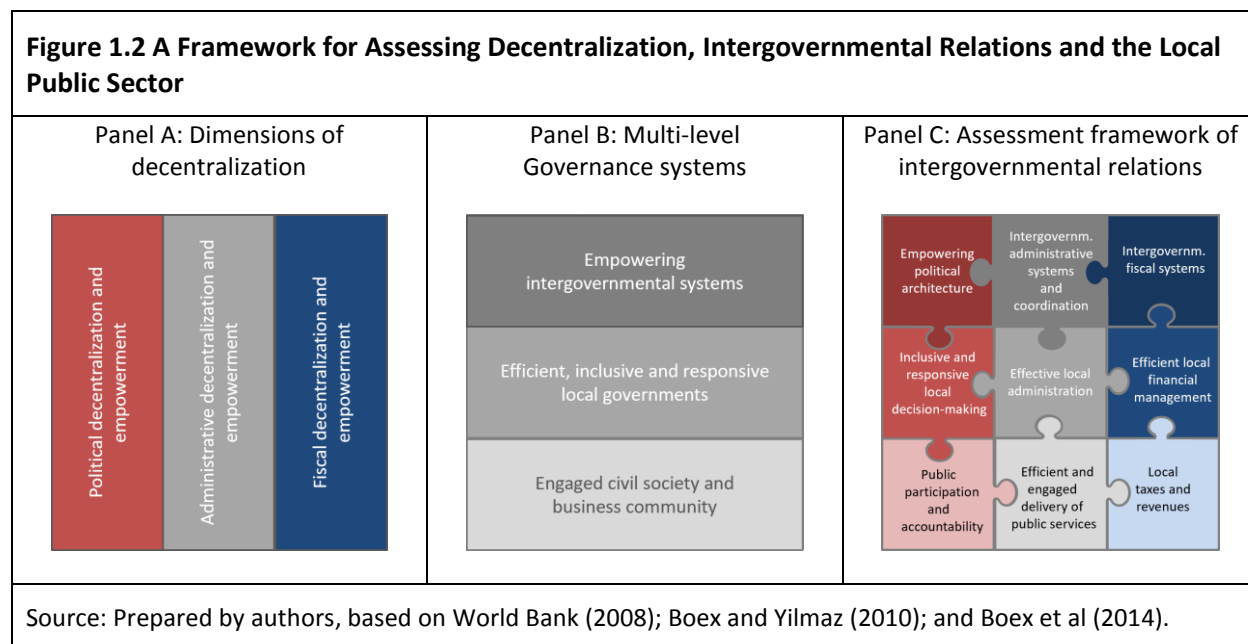
These emerging alternate definitions should be seen as complements—rather than as substitutes—to Rondinelli’s original definitions of decentralization. Whereas Rondinelli offered considerable detail on the “what” and “how”, the more recent definitions focus more on the “why” (i.e., empowerment), which is a



driving force not only behind today's inclusive global Sustainable Development Agenda, but also fundamental to the Bank's desire to promote public sector performance.

### 1.3 Decentralization and intergovernmental relations: An assessment framework

As suggested by the discussion above, the analysis of decentralization, multi-level governance and intergovernmental relations requires considering the effectiveness and inter-relationship between public sector stakeholders at different government levels. Furthermore, effective decentralized and/or intergovernmental governance arrangements represent a critical component in the efficient delivery of front-line services and in achieving sustainable development results. As such, it is critical to place the different dimension and elements of decentralization and intergovernmental relations in the larger multi-level governance framework (Figure 1.2).



The assessment framework for decentralization, intergovernmental relations and the local public sector presented in Figure 1.2 combines two critical aspects of an effective system of intergovernmental relations. First, decentralization has **political, administrative and fiscal dimensions**, which must be coordinated and balanced in order for decentralization to be successful and effective (Panel A). Second, effective multi-governance systems require action and coordination across three levels, requiring **an empowering intergovernmental architecture and systems; efficient, inclusive and responsive local governments (and/or other local institutions); and an engaged civil society, citizenry and local private sector** (Panel B). The resulting assessment framework for decentralization, intergovernmental relations and the local public sector is formed by a 3 by 3 matrix with 9 different cells, where each of these cells represents an integral part of an effective multi-level public sector.

In turn, the stakeholders at each level need three attributes in order to be effective across the spectrum of political, administrative and fiscal decentralization and empowerment (World Bank 2008; Boex and Yilmaz 2010). First, each stakeholder needs the **discretion and authority** (the legal power and administrative discretion) to perform their functions or responsibilities. Second, stakeholders at each level need to have the necessary organizational structure and systems in place and the **institutional capacity**

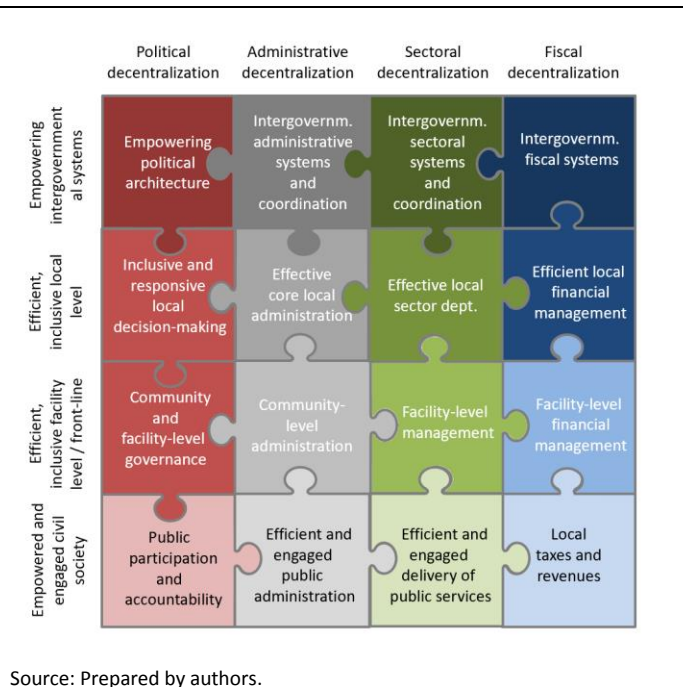
to perform their functions. Third, **accountability** mechanisms need to be in place for stakeholders at each level to be held accountable for their performance.

The analytical framework visualized in Figure 1.2 merely provides a general framework which may be fine-tuned to be suitable to a specific country or sector context depending on the exact purpose or focus of intergovernmental fiscal analysis. For instance, it may be useful to reflect the role of regional or intermediate level governments in the analytical framework.

In other cases, it may be useful to divide the local government (or local administration) level into two distinct sub-levels: the local government (administration) headquarters level as distinct from the front-line service delivery unit or local facility level. This distinction is particularly relevant in places where front-line facilities have distinct (*de jure* or *de facto*) planning, budgeting, or administrative / managerial power.

Similarly, when the impact of decentralization or intergovernmental (fiscal) systems is discussed for one or more specific sectors, it might be useful to separate out decentralization concerns that apply to a single sector from more general elements of administrative decentralization (such as the role of the Planning Commission or the Civil Service Department) by adding a “sectoral decentralization and empowerment” column in the diagram (see Figure 1.3).

**Figure 1.3 An Expanded Framework for Assessing Decentralization**



This allows for the more detailed analysis of sector-specific elements, as optimal sectoral arrangements may vary from sector to sector. This sectoral column can then allow a greater focus on sector-specific sub-systems (such as the formulation and implementation of sectoral policies, plans and regulations; sectoral HRM issues; sector-specific supply chains; and so on) as compared to administrative constraints outside the purview of the sector ministry.

#### 1.4 The evolving nature of decentralization as a public sector reform

“What works” in public sector reform is highly context dependent. Explicit evidence that one approach to decentralization or localization might be more effective in achieving development results than others is limited (Smoke et al, 2013). While decentralization is being pursued by countries around the world, decentralization processes and reforms of intergovernmental (fiscal) systems are not a linear process. Indeed, Wallace Oates (2005) suggests that

*“Contrasting forces, some leading to increased fiscal centralization and some to greater decentralization, are producing an ongoing restructuring of public sectors throughout the world.”*

From a technical viewpoint, public sector management reforms seek to improve public sector results by changing the way that governments work (World Bank 2012). Whereas most public sector reforms are initiated upstream by core central ministries, it is downstream where the public sector delivers outputs that directly matter to citizens and firms. As such, sustainable decentralization reforms require that thousands of public agents alter their behavior.

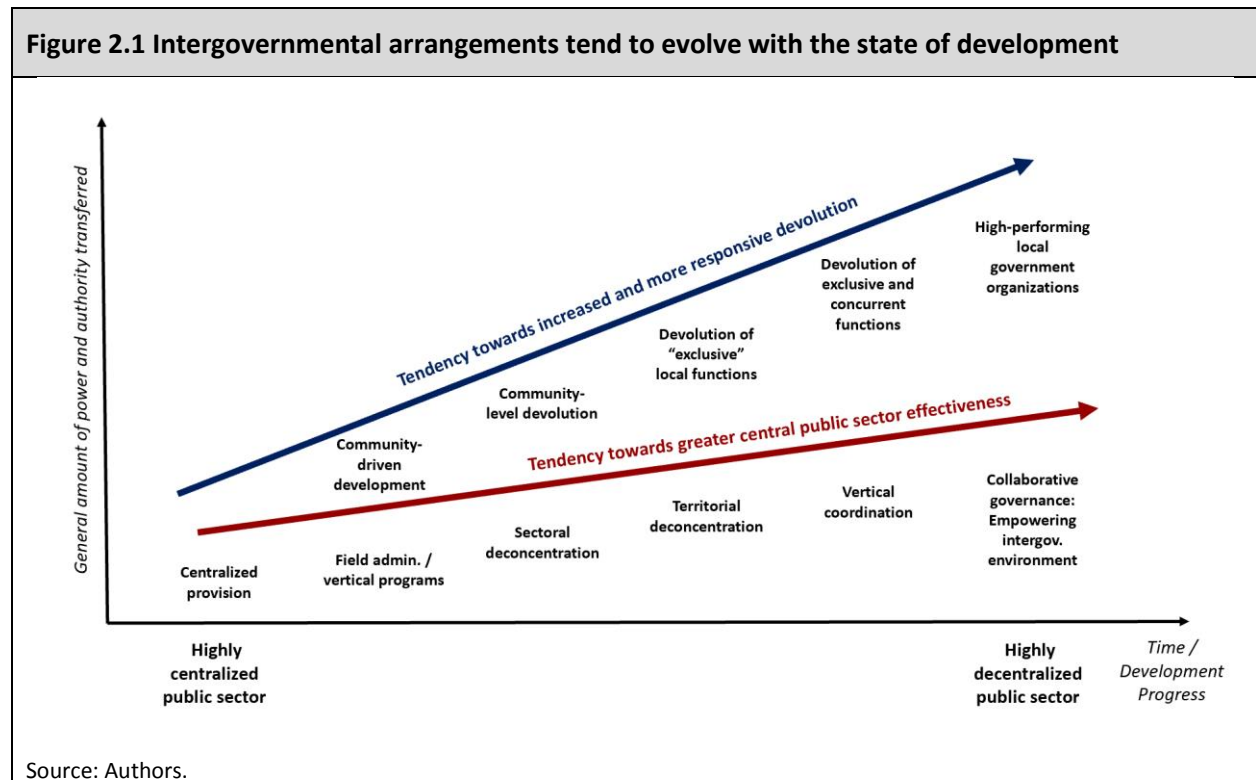
A final takeaway is that during the design and implementation of major decentralization reforms—or in the subsequent fine-tuning of intergovernmental relations—political and institutional incentives may be at odds with improving public sector performance. It is not unusual for central government politicians and bureaucrats to support the concept of decentralization during the policy formulation stage only to oppose its implementation when the reforms threaten to limit their own political, financial or institutional powers. As such, understanding the wider context of decentralization reforms—including its political, administrative and fiscal dimensions—through a political economy lens is critical to understanding the real-world opportunities and potential limitations to a more decentralized public sector.

## 2. Placing country practices within a spectrum of intergovernmental institutional and fiscal arrangements

Based on the general context provided by the different dimensions of decentralization or intergovernmental relations, the first step is to conduct an analysis to identify the exact nature of the multi-level public sector in the country. This can be done formally as part of a Public Expenditure and Institutional Review (PEIR) or a Decentralization Policy Review, or as part of a design process of a lending operation.

### 2.1 Intergovernmental arrangements tend to evolve with the state of development

In some countries, decentralization reforms and the restructuring of intergovernmental arrangements are gradual processes that take years or even decades to complete (e.g., Ghana, Zambia). In other countries, intergovernmental arrangements are completely changed from one year to the next (or in a few short years) following a “big bang” approach (e.g., Indonesia, Kenya, and Nepal). Although decentralization and localization are not linear processes, and even though each country’s decentralization trajectory is unique, it is useful to consider that the general nature and composition of intergovernmental institutional and fiscal arrangements tends to evolve over time and with a country’s state of development from more centralized to more decentralized (Figure 2.1).



Three specific institutional reforms and trends tend to capture the changing nature of decentralized or intergovernmental arrangements over time:

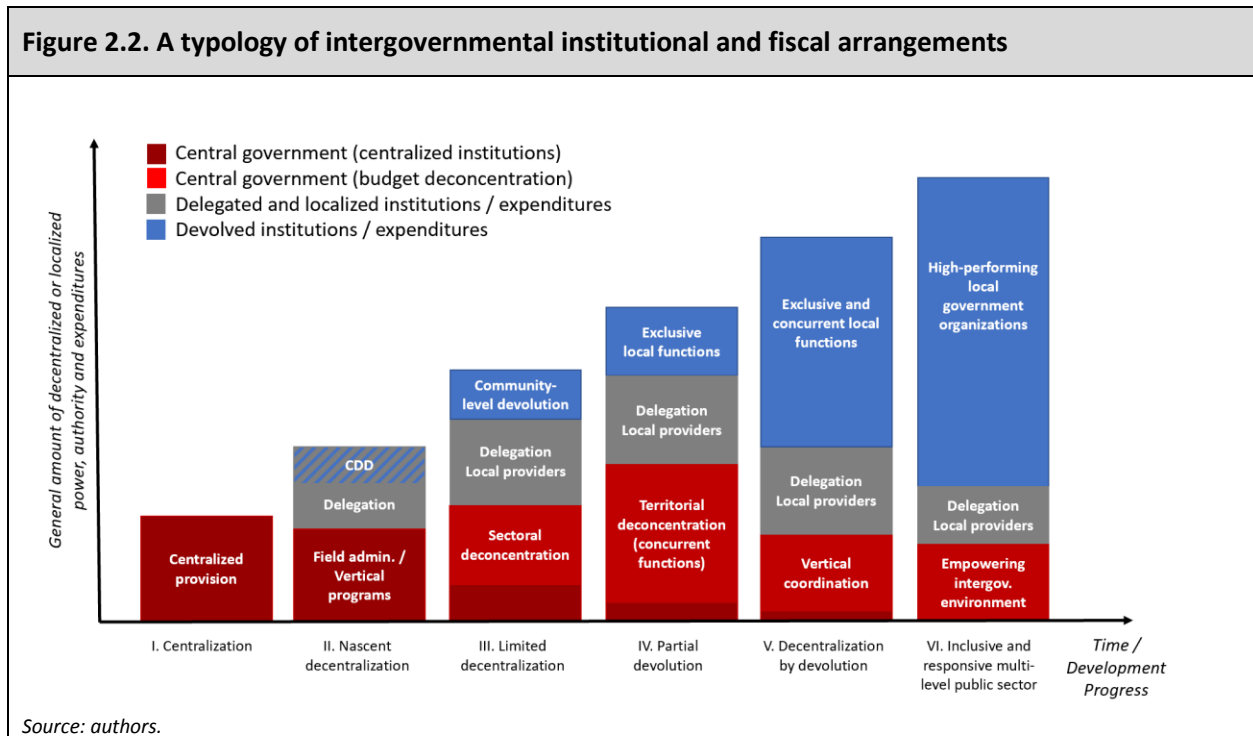
- ***Decentralization and modernization within the central public sector.*** First, within the central public sector, the nature and balance of centralization versus localization tends to evolve along the development spectrum. In less developed, low-income country contexts, central government administrations tend to function as traditional, hierarchical (top-down) and bureaucratic administrative entities, which leave little or no decision-making space for officials that are placed at lower levels of the administrative hierarchy. As a country moves along the development spectrum, central government administrators tend to adopt more results-oriented and collaborative public administration approaches, and thus, start seeing local-level administrators and/or local governments as potential partners within the public sector, rather than as a competitor for scarce resources.
- ***The nature of devolved institutions and finances tends to be associated with where countries are on the development spectrum.*** Second, to the extent that the public sector relies on elected subnational governments, the nature of devolved institutions and devolved finance tends to evolve as countries move along the development spectrum (albeit again, not necessarily in a consistent or linear manner). While local institutional capacity is not just a function of overall development progress, the administrative and governance capacity of local governments tends to improve over time and with development progress. Similar to the central level, in low-income countries and low-empowerment contexts, local government administrations tend to function as hierarchical, rule-based and bureaucratic administrative entities. In this kind of less developed context, public participation and bottom-up accountability is hard to achieve (Collier 2010). By contrast, in higher income countries and empowered intergovernmental contexts, local governments aim to function as collaborative, high-performing local government organizations (HPLGOs) which are capable of proactively identifying and responding to the needs of local constituents.
- ***The shifting balance between centralized and devolved institutions and expenditures.*** Third, as a country's state of development evolves, the balance between different modalities of decentralization and localization tends to shift from central government institutions towards greater reliance on devolved institutions (i.e., regional and local governments) and devolved financing mechanisms.

While these three general decentralization trends tend to take place as a country's state of development evolves over time, these three different trajectories of decentralization and localization don't necessarily evolve at the same speed: for instance, devolution in any specific country may tend to progress more or less rapidly compared to the extent to which the public sector is effectively deconcentrating. Considerations regarding the sequencing of decentralization reforms are explored further below.

In addition, before getting into further detail, it is important to recognize that it is not necessarily every country's ambition to adopt a highly devolved public sector structure. Although there are certain benefits uniquely tied to democratic decentralization, devolution is merely one way to deal with the pressures on the public sector brought about by social and economic complexity. At the same time, this analysis being partial to the fiscal features of decentralization, there might be important political or societal forces that provide a counter-weight to demands for devolution. For instance, it is understandable for central officials to resist pressured to decentralize (by devolution) if this reform is expected to promote societal fragmentation and promote centrifugal forces (e.g., [Brancati 2009](#)).

## 2.2 A typology of intergovernmental (institutional and fiscal) arrangements

No two countries are exactly alike when it comes to the nature of their state of decentralization or intergovernmental arrangements. In addition, there is nothing automatic about the evolution of intergovernmental arrangements as economic and social development takes place in a country. Nonetheless, it might be useful to specify six different generic types of decentralization and localization that reflect a “typical” state of institutional and fiscal arrangements or expenditure approaches along the intergovernmental spectrum (Figure 2.2).



The generic typology in Figure 2.2 presents six “textbook” types of intergovernmental arrangements, evolving from a highly centralized institutional and fiscal system (where the central government is paramount and the public sector’s budgetary resources are contained in the budget of the central government without any further decentralization or localization) to gradually more decentralized or localized institutional and fiscal approaches, which typically form intermediate steps on a long-term trajectory from more centralized to more decentralized public sector institutions and expenditures. As suggested by the typology, it is often the case that within a country (and even within the same sector), there is a messy and simultaneous mix of central implementation, delegation, deconcentration and decentralization happening all at once.

At the lowest state of development, when the central public sector has an extremely limited capacity (for instance, in an immediate post-conflict scenario), the public sector tends to organize itself in a highly centralized manner in order to use its scarce human and financial resources as efficiently as possible. However, highly centralized and concentrated public sectors tend to have major challenges in effectively localizing public services and achieving community engagement: under such conditions, a first step in improved public services and the legitimacy of state institutions can be achieved through the

development of an effective field administration, along with the introduction of vertical sector programs and community-driven development interventions (CDD), and/or delegation of service delivery functions to dedicated service delivery authorities.

In turn, each next step in the typology resolves a common (binding) constraint in the preceding intergovernmental arrangement as countries tend to walk up the ladder towards a more decentralized and localized public sector as social and economic conditions evolve with the overall level of development. For instance, there tends to be a somewhat natural progression in the nature and organization of the central public sector over time, where at each stage of decentralization, the public sector tries to resolve the main binding constraint of the previous one: from a fully centralized institutional and fiscal structure to administrative deconcentration, to vertical (sectoral) budgetary deconcentration, and eventually, horizontal (territorial) deconcentration (Box 3).<sup>7</sup> In turn, a well-functioning system of horizontal deconcentration is also often considered a precondition for effective devolution (Bahl and Martinez-Vazquez 2013).

Similarly, the nature and level of spending of devolved local governments tends to be associated with where countries are on the development spectrum: in low-capacity development contexts, devolution efforts tend to focus on community-level local jurisdictions (e.g., communes or villages) and often involve a limited set of functional responsibilities. As the institutional potential of local governments tends to grow along with the state of development, local governments in more advanced development contexts are able to incrementally take on a more prominent role in public infrastructure development and service delivery.

While it is possible to “jump” one or more stages of the decentralization process, doing so does typically complicate the decentralization or localization reforms. For instance, in recent years, both Kenya and Nepal started their constitutionally-driven devolution reforms with subnational government entities that were created *de novo* rather than relying on preexisting territorial-administrative jurisdictions. This meant that they had to “build the car while driving it” (i.e., build the institutional capacity of subnational governments from scratch at the same time as functional responsibilities were transferred). The decentralization process in these countries posed significantly greater challenges—and risks to service delivery outcomes—when compared to more sequential reforms. For instance, the district-level local government organizations empowered by the “big bang” decentralization reforms in Indonesia in 2001 built on previously established (territorially deconcentrated) district administration units. This meant that despite a considerable change in the local political system, the basic management of local administration and local service delivery continued largely uninterrupted.

### **Box 3. Different types of deconcentration**

In countries that do not have elected local government levels, the local public sector is typically formed by “deconcentrated” subnational line departments or subnational territorial units of the national government, which

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<sup>7</sup> Administrative deconcentration without corresponding budget deconcentration tends to result in vertical imbalances (in human resources and finances) within the government administration. This constraint can most easily be resolved by introducing budgetary deconcentration within each sector ministry budget. However, because under a vertical or sectoral approach to deconcentration, each line ministry operates ‘vertically’ in a deconcentrated manner, this approach typically does not allow for much—if any—harmonization of planning and budgeting across sectors at the provincial or district level. In turn, this challenge can be resolved at the appropriate time by shifting from vertical (sectoral) deconcentration to horizontal or territorial deconcentration.

form a hierarchical, administrative tier of the higher-level government. In these countries, these deconcentrated subnational administrative units are generally assigned the responsibility for delivering key government services—such as education, health services, and so on—within their respective geographic jurisdictions. As such, in a deconcentrated system, the provincial education department or the district education office (for instance) might be a sub-organization of the national Ministry of Education, rather than reporting to any elected local council. Even in countries that do have elected local governments, some or most public services may be delivered through deconcentrated administration units.

Because deconcentrated departments or jurisdictions are merely a hierarchical part of the next-higher government level, unlike local governments, deconcentrated units are not corporate bodies. Nor do deconcentrated jurisdictions have their own budgets; instead, their budgets are typically contained as sub-organizations within the budget of the higher government level. In deconcentrated systems, “local” government officials are an integral part of the national public service, and local executives (such as regional or district governors, as well as local department heads) are generally appointed by the central government.

In some countries, central line ministries are organized administratively or organizationally in a deconcentrated manner, while the deconcentrated entities are not recognized as separate budget entities in the country’s budget structure. This is generally known as **administrative deconcentration**. In contrast, **budgetary deconcentration** can be defined as a situation in which deconcentrated entities (i) form an organizational part of the national (state) administration; (ii) deliver public services or perform its functions in accordance with a territorial mandate; and (iii) form a formal budgetary entity in the Chart of Accounts (along the organizational dimension of the budget). In addition, it may be helpful to further divide deconcentrated public sector structures (or deconcentration budget structures) into two different types of deconcentration: vertical (or sectoral) deconcentration versus horizontal (or territorial) deconcentration.

The hallmark of a **vertical (or sectoral) deconcentrated structure** is that line ministry budgets are organizationally broken out across different government levels or tiers, so that subnational (e.g., provincial or district) line departments service as separate sub-organizations and cost centers within their line ministry budgets. From an institutional and budgetary viewpoint, this means that every line ministry follows a ‘silo-structure’ or a ‘stove pipe’ from the central level down to the province level (and possibly to district level). Vertical deconcentration allows line ministries a strong role in planning and implementing sectoral services.

Under a **horizontal (or territorial) deconcentrated budget structure**, subnational line departments are not included in the budget under their parent ministries. Instead, subnational revenues and expenditures are included in the central budget aggregated into territorial units, which are then broken down into subnational departments. As a result, under horizontal (or territorial) deconcentration, sectoral departments at each administrative level are administratively subordinate to the Provincial Governor or to the District Governor, respectively. As such, under horizontal deconcentration, the ‘subnational budget’ reflects the aggregation of spending decisions made by the center to be executed within the subnational jurisdiction. However, since the subnational spending is no longer contained with the budget votes of individual line ministries, subnational officials are better able to coordinate their efforts across sectors and may have greater discretion over subnational expenditures in order to respond better to local priorities.

Source: LPSI Handbook (2012).

## 2.3 Sequencing decentralization

Although Figures 2.1 and 2.2 are highly stylized, and although each individual country determines its own objectives, path and destination when it comes to decentralization and localization reforms, this typology provides useful guidance with respect to the gradual improvement of subnational and intergovernmental institutions and (fiscal) management, as in reality, only a few countries (if any) transition from a complete centralized system to a fully inclusive, responsive devolved public sector system in a single step.



Instead, over the course of decades (or longer), countries may adjust their intergovernmental systems to prevailing political, economic and social conditions, often in an iterative manner. Bahl and Martinez-Vazquez ([2013](#)) describe a normative approach to sequencing decentralization, containing a sequence of six steps, including: Step 1 - carry out a national debate on the issues related to decentralization policy; Step 2 - do the policy design and develop a White Paper; Step 3 - pass the Decentralization Law; Step 4 - develop the implementing regulations; Step 5 - implement the decentralization program; and Step 6 - monitor, evaluate, and retrofit.

In reality, decentralization reforms are seldom sequenced in a linear, with forward progress often achieved when windows of opportunity for reform arise. As a result, sometimes countries take two steps forward and one step back, while at other times taking one step forward and two steps back. Furthermore, while the long arc of multi-level governance bends towards devolution as development progresses, the arc is long and—at any given point in time—does not necessarily always point towards greater devolution. Instead, in the short term, the direction of intergovernmental reforms is often dictated by political realities.

### **3. Understanding the political economy of decentralization and intergovernmental relations**

Given that the direction of intergovernmental reforms is often dictated by political realities, the design and evolution of decentralization, or a country's intergovernmental (fiscal) architecture, should not only be considered through a technical lens, but should also be understood in the context of the political economy forces that help define it.

#### **3.1 Why is understanding the political economy of decentralization crucial?**

Political economy relates to the prevailing political and economic processes in society by taking account of the incentives, relationships, distribution, and contestation of power between different groups and individuals (GSDRC 2014). The interaction between these forces generates particular policy outcomes that may encourage or hinder development (ODI 2009). Formal institutions (such as the rule of law, elections, and intergovernmental systems) and informal social, political and cultural norms play key roles in shaping human interaction and political and economic competition.

Decentralization reforms—as well as other public sector processes—are not just technical processes to be decided by technocrats, but rather, reflect a political or institutional contestation of power between different groups and individuals across and within different government levels.

Taking time to understand the political economy of decentralization reform is particularly useful for development practitioners since it helps consider the drivers of political and institutional behavior; forces us to reflect on who the main “winners” and “losers” are within public sector systems; and how incentives and institutional relationships shapes the design and implementation (or the lack of implementation) of particular policies and programs (ODI 2009). In turn, this allows us to evaluate and design better policy solutions by ruling out reforms that are politically or institutionally not viable, and by addressing, fine-tuning or working around processes where political and institutional motivations or incentives get in the way of public sector efficiency.

#### Why is it important to consider political economy drivers across different dimensions of decentralization?

Intergovernmental systems are highly interlinked. For instance, each pillar of fiscal decentralization—as well as each other element of an effective intergovernmental system—is not only related to other pillars of fiscal decentralization in terms of design and implementation, but also to the other (i.e., political and administrative) dimensions of an effective intergovernmental system.

Often problems in one dimension of decentralization or at one government level are merely symptoms of more widespread systematic obstacles or failures. Weak service delivery is a symptom that is commonly identified in discussions on local governance, decentralization and localization as being a major problem at the local level. Similarly, weak local administration or weak local public financial management might be singled out as challenges to be addressed. More often than not, however, these problems are merely the symptoms of problems in the political or administrative sphere. Without considering the political economy context, the policy response would be to treat the issue narrowly as a technical problem, which would be inappropriate and ineffective. In some cases, fiscal instruments—especially intergovernmental fiscal transfers—can be leveraged to improve constraints in the political and administrative dimensions of intergovernmental relations.

### 3.2 Why is sound decentralization an unlikely reform?

Despite the many potential benefits of decentralization, the stakeholders most responsible for championing decentralization reforms—elected politicians and national-level bureaucrats—often face diverse incentives to pursue, to appear to pursue, and even to limit decentralization reform (Eaton, Kaiser and Smoke 2011).

While decentralization may have long-term benefits to the country as a whole, in the short-run, it requires different national-level stakeholders to give up some of their power and control over resources. For analytical purposes, it is useful to distinguish between the motivations facing elected politicians at the central government level—who are facing electoral, partisan, institutional, and coalitional incentives and constraints—and the motivations and incentives being faced by appointed central bureaucrats—who are tasked with representing specific government departments or units, and who are therefore primarily concerned about advancing narrower institutional powers and interests; improving career trajectories for themselves and their teams; and preventing rival agencies from interfering in their responsibilities, powers and resources.

Despite the long-term benefits, then, why would elected political leaders and national-level bureaucrats pursue decentralization reforms if this means giving up power and control? Indeed, in practice, we often see that central government stakeholders are not fully committed to decentralization:

- *The extent of political decentralization may be limited, or local governments may not be meaningfully empowered over functional responsibilities.* For instance, the Constitution or Decentralization Law may be approved by parliament but—in reality—not meaningfully implemented, or there may be extensive conflicts between the decentralization law and sectoral laws as to the actual role of local governments in key sectors. In other cases, elected local bodies may be introduced without being given authoritative decision-making power, so that local plans and decisions may still need to be approved by the central government (and can still be arbitrarily changed by higher-level officials).
- *The decentralization of administrative powers may be limited.* Similarly, despite functional assignments in the constitution or legal framework, sector ministries may—in practice—retain effective control over key sectoral functions. In fact, it is not uncommon for higher-level governments to have full (or nearly full) control over local government staff that is responsible for the delivery of legally devolved local public services (e.g., India; Tanzania; Sierra Leone).
- Even in places where political and administrative powers and functions have been devolved, central authorities can retain substantial control over the local public sector simply by failing to decentralize adequate fiscal powers and resources. Starved of financial resources, the central government can introduce highly earmarked grants to micro-manage local decision-making, or simply declare local governments incapable of delivering services and allow sector ministries to retain or retrench the *de facto* responsibility for front-line service delivery. This *de facto* degree of control can vary significantly from sector to sector.

Furthermore, within the central government, different stakeholders may have different motivations and concerns in supporting decentralization reforms. In fact, rather than as champions for decentralization, Bahl (1999) considers most central government ministries as potentially weak or ambivalent supporters of decentralization reforms. For instance, as the steward of a country's finances, the main concerns of the

Ministry of Finance include fiduciary control, macro-fiscal stability, and efficient public resource utilization; as such, the Finance Ministry might propose strict limits to decentralization in order to hold the main fiscal tools for stabilization policy purposes. Likewise, central line ministries might only weakly support decentralization, unless they are assured substantial control the standards of local public service delivery, including direct or indirect power over local staff or front-line service delivery decisions. In fact, even the Ministry of Local Government is often only seen as an ambivalent supporter of decentralization reform: while it would generally favor greater functional powers—and a greater guaranteed share of resources—for local governments, it would often like to ensure top-down oversight by the Ministry over local government activities, while controlling the distribution of those resources to the local level itself.

It was noted earlier in this document that in order to reap the benefit from decentralization, the intergovernmental architecture should balance authority and accountability across the political (or governance), administrative and fiscal aspects of decentralization. From a political economy angle, however, Eaton and Schroeder (2010) suggest that it is not unusual for central government stakeholders to give the appearance of pursuing decentralization, while in reality clinging to power in at least some dimension of decentralization. This allows the central government to appear as a champion of decentralization, while effectively maintaining power over the local public sector by its control over either the political, administrative or fiscal levers (Boex and Yilmaz 2010; Boex and Simatupang 2015).

### **3.3 Different political economy viewpoints on decentralization at the local level**

Local governments—like their higher-level counterparts—are not a monolithic entity. As such, local governments should be understood as political bodies with complex internal workings: while working together, the motivations and incentives acting on the mayor or executive; the council or assembly; the local administrative officers; local department heads; and local front-line staff are all likely to differ slightly depending on their location in the organization.

It is again useful to distinguish between the motivations facing elected local politicians—who are facing electoral, party-political and other incentives and constraints (both locally and from above)—versus the motivations and incentives being faced by appointed local bureaucrats and administrators—who may be more interested in advancing a more limited agenda (consolidating institutional or personal power, improving career trajectories, and checking rival agencies) than with the overarching mission and vision of the local or regional government.

It is important in political economy analysis to set value judgements aside: while we would like to believe that a mayor *should* care about clean water and sanitation as a human right for her constituents, the real question is: is she able to care about such long-term sectoral investments when faced with competing demands over scarce resources, including demands from her political party headquarters, or incentives to spend available resources on projects that have a more immediate impact of the livelihoods of her constituents, and thus help secure re-election? Likewise, we know that as professionals, teachers and medical workers *should* be committed to effectively providing public services to their students and patients, but it is nonetheless important to explore what incentives and institutional constraints cause the absenteeism and weak local service delivery performance at the front line in education and health identified in so many countries.

In fact, the incentive being faced local stakeholders—including local politicians, local administrators, as well as citizens and local civil society actors—is likely to be highly context specific. For instance, a big city mayor may be a champion of decentralization, but will mainly be interested in more own source revenue

instruments. By contrast, a chairman of a rural district may see decentralization in a positive light, but—lacking a strong economic base—is likely to be interested in receiving more unconditional equalization grants (Bahl 1999).<sup>8</sup>

**Box 4. Background and resources on (general) political economy analysis of decentralization**

- **Implementation Rules for Fiscal Decentralization** (Roy Bahl): [World Bank, 1999](#).
- **Making Decentralization Work: Democracy, Development, and Security** (Ed Connerley, Kent Eaton, and Paul Smoke, eds.): [Lynne Rienner, 2010](#).
- **The Political Economy of Decentralization Reforms: Implications for Aid Effectiveness** (Kent Eaton, Kai-Alexander Kaiser, Paul J. Smoke): [World Bank, 2011](#).
- **A Comparative Overview of Local Governance Systems in Selected Countries** (Jamie Boex and Renata Simatupang 2015): [Local Public Sector Initiative, 2015](#).
- **The Technical Is Political - Why Understanding the Political Implications of Technical Characteristics Can Help Improve Service Delivery** (Daniel Harris, Claire Mcloughlin and Leni Wild): [Overseas Development Institution, 2013](#).

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<sup>8</sup> Similarly, the willingness of citizens or civil society to be part of local participatory processes will depend on the effectiveness of vertical or intergovernmental mechanisms. Anecdotal evidence suggests that citizens and community leaders may not care to be involved in local planning or oversight activities—for instance, as part of health facility committees or as part of user committees—if local officials have no meaningful discretion to improve front-line services. In these cases, such committee may exist and function on paper only.

## 4. Promoting resilient, inclusive, sustainable and efficient development in a multi-level public sector

As noted at the beginning of this document, the main objective of this overview decentralization and intergovernmental relations is to enable World Bank task teams to systematically identify the strengths and weaknesses of a country's approach(es) to decentralization and to leverage, whenever possible, a country's intergovernmental systems in order to promote resilient, inclusive, sustainable and efficient development in the context of the multi-level public sector.

In addition to the technical and political economy perspectives provided on the topic in the previous sections, it is useful to address two relevant issues related to the implementation of decentralization reforms in the real world. First, it is important to recognize that the global context within which decentralization and localization reforms are understood is changing quite rapidly (Section 4.1). Second, it is important to give thought to the specific political economy dynamics and challenges faced by the World Bank (and other providers of external development assistance) when operating and seeking to promote decentralized development outcomes in a multi-level public sector (Section 4.2). Concluding thoughts follow (Section 4.3).

### 4.1 Decentralization in a changing world

Although the understanding of decentralization has evolved over time, the basics of decentralization haven't changed all that much in the past twenty years. However, the global context within which decentralization reforms are pursued has changed significantly in a number of different ways:

***Considerable development progress has been made around the world.*** Despite their relative disadvantage compared to industrialized countries, many developing, and transition economies have experienced tremendous economic transformation and growth over the past 25 years, evolving from economies relying heavily on the primary sector of the economy, to more productive, diverse and complex economies. More diverse economic structures and rising productivity require greater and more responsive public sector infrastructure investments, while higher household incomes and a sharp reduction in global poverty have often triggered increased public participation and demand for better public services.

***Urbanization.*** Until 2007, more people lived in rural areas than in cities. By 2050, it is projected that two-third of the global population will live in cities, with most of that increase is expected to occur in African and Asian countries (UNDESA 2018). Urban areas offer a unique context for decentralization and localization, as they often function as the engines of national economic growth, while at the same time acting as a space for social mobility and transformation.

***The role of conflict, fragility and increase in authoritarianism.*** The increase in terrorist activities in the last two decades have had a de-stabilizing effect in countries around the world and have caused—or contributed to—fragility and conflicts in numerous other countries. By 2020, the economic and physical insecurity brought about by conflict and violence—and worsened by the COVID-19 pandemic—ravaged the world in 2020, had shifted the international balance in favor of authoritarianism (Freedom House 2021).

**Focus on inclusive (equitable) and sustainable development.** The Millennium Development Goals (MDGs) were quite successful at increasing the quantum of development finance and targeting these resources on a number of specific objectives. At the same time, many observers felt that the development impact of the additional resources was limited by the fact that a disproportionate share of the resources was getting stuck at the national level rather than funding improvements in front-line services. In contrast to the MDGs, the 2030 global Agenda for Sustainable Development (the SDGs) actively considers the need to “localize” inclusive and sustainable development by ensuring the transformation of public sector resources into development results.

**Climate adaptation and mitigation.** Cities consume over two-thirds of the world’s energy and account for more than 70 percent of global CO2 emissions. At the same time, the effects of the changing climate are already experienced by 70 percent of cities worldwide, with 77 percent expected to undergo a dramatic change in climate conditions (CCFLA 2021). Common hazards to cities and local governments include becoming an urban heat island, flooding, landslides, sea level rises, storm surges, tsunamis, wildfires, droughts, earthquakes, and volcanos. Building cities that are green, inclusive and sustainable should be the foundation of any local and national climate change agenda.

**In many countries, the role of international financial institutions and development assistance is changing.** As countries move up the economic ladder, the role of international financial institutions and development agencies evolves from primarily serving as a funder of capital infrastructure to acting as champions of public sector efficiency and catalysts for systems transformation.

**COVID-19.** The global coronavirus pandemic has created a global humanitarian and economic crisis of proportions without precedent in recent times. Local governments and local administrations around the world have been at the front line in responding to the pandemic, whether by providing emergency and curative health services and other public health services; by enforcing compliance with social distancing and public hygiene measures; by mitigating the impact of the pandemic on other local public services; or by supporting social and economic relief activities within their local communities. As such, the pandemic has reminded policymakers all around the world that out of all government levels, the local level is closest to home and in many cases, the best-positioned to respond to specific challenges. By highlighting the potential value of local governments and other local actors to the people, in many different countries, the pandemic is also highlighting the obstacles that are standing in the way of local governments performing their functions in an inclusive, effective and responsive manner.

#### **4.2 Political economy challenges faced by providers of external development assistance**

In addition to understanding the political economy dynamic of domestic actors and stakeholders in the context of decentralization reforms, it is important for World Bank task teams (and other development partners and providers of external development assistance) to recognize the political economy forces influence their own actions and interventions. Some of the issues and challenges likely faced by task teams when operating in a multi-level public sector include:

- **The Bank’s central government counterparts are not neutral actors.** Without exception, the institutional entry point for the World Bank’s task teams (as well as for other international development agencies) is the central or national government level. Whereas in the case of centralized public sector interventions, the central government (i.e., the counterpart ministry) is often also the main beneficiary of the World Bank program, this is not necessarily the case for Bank operations that aim to strengthen decentralized governance, administration or service delivery. In many cases, relying

on central ministry officials to determine how much World Bank funding should flow to subnational stakeholders versus to the ministry itself is a bit like putting the fox in charge of the hen house. While there are many examples where central government counterparts have strongly supported World Bank projects that strengthen decentralized systems, there are equally a large number of examples where the centralized viewpoints or narrow institutional interests of central ministry counterparts formed an important political economy obstacle in project design and implementation.

- ***The centralizing bias of the international development community.*** There is no doubt that it is easier to design and manage a development project that has a single central government counterpart versus a project that needs to be implemented by dozens or possibly even hundreds of local governments. Given that donor agencies and international financial institutions need to have their primary counterparts at the central government level, a combination of institutional self-interests—by the donor agency as well as by their counterparts at the central government level—can bias the implementation of development projects to the central government level (Boex 2010).
- ***Strengthening decentralized systems requires a solid understanding of intergovernmental systems as well as political economy incentives faced by subnational stakeholders.*** While World Bank task teams are well-equipped to design and deliver technical interventions, task teams are often not equally well equipped to identify and deal with political economy constraints, which tend to be more prevalent in multi-level public sectors. In fact, in countries where public service delivery responsibilities are devolved to local governments, both technical obstacles (such as institutional capacity limitation or inadequate resources) as well as political economy obstacles need to be considered. For instance, a local government’s failure to deliver public services in an efficient, inclusive or accountable manner may not be caused by technical limitations *per se*, but may find its origins in local political priorities or political economy forces acting on local leaders.<sup>9</sup>
- ***World Bank support (as well as other development partner programs) can legitimize or delegitimize certain players.*** Whether intentional or not, the development and implementation of World Bank programs often has important implications on public sector governance. For instance, by focusing their dialogue and resources on the central government level instead of transferring their funds to the local government level through the intergovernmental transfer system (or vice versa), World Bank programs—wittingly or unwittingly—alter the balance of power and resources among stakeholders at different levels of the public sector. The situation is complicated further by the fact that the World Bank and other international development agencies are internally fragmented or stove-piped (typically, by sector), and that the majority of external assistance therefore focuses on sectors – which is, by definition, earmarked. Although a sector program to provide funding to, say, local health facilities may be presented as “governance-neutral” because it by-passes the local government level, by the very fact that the program introduces a new funding stream, the program is likely to have a significant impact (for better or for worse) on the incentives and accountability relationship in the public sector.
- ***Improving the effectiveness of intergovernmental or vertical service delivery systems often requires working across stovepipes at different government levels.*** As suggested by the typology in Section 2, it is often the case that within a country (and even within the same sector), there is a messy and simultaneous mix of central implementation, delegation, deconcentration and decentralization

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<sup>9</sup> To complicate matters further, different sectoral programs may not be well-positioned to address cross-cutting local government challenges, such as weak local financial management.



happening all at once. This means that efforts to improve the effectiveness of intergovernmental or vertical service delivery systems will often require successful task teams to work across different sectoral or thematic stovepipes, both at the central government level as well as at the subnational level.

### **4.3 Concluding thoughts**

Decentralization is quintessentially a cross-cutting public-sector governance topic that is at the intersection of multiple disciplines including, economics, political science, public administration and management. It is a broad and complex area of public sector reform encompassing wide-ranging issues from public financial management to human resource management, procurement and beyond. In the last decade or so, there is a growing recognition within the global development community that there is a need to reform intergovernmental systems of developing and transition countries to make them function more effectively and efficiently in the pursuit of Sustainable Development Goals (SDGs), since most (poor) public services are delivered at the local level, whether by the deconcentrated departments of line ministries or by devolved local government authorities.

The primary objective of this toolkit is to provide World Bank task teams guidance on systematically identifying the strengths and weaknesses of a country's approach(es) to decentralization and to improve, whenever possible, a country's intergovernmental systems in order to achieve better service delivery.

## References