



Capacity Development Strategies to Support Decentralization in Asia

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Acknowledgments

'Capacity is Development' is a call to systematically review, capture and discuss key capacity development lessons of the past and to look on to the future. Through distilling key policy and investment choices made over time to motivate forward planning on capacity development, this research paper helped define the content framework of the 'Capacity is Development' Global Event. This paper was written by Naresh C. Saxena. Special mention is made of contributions by Kirsten Ejlskov-Jensen, Iffat Idris, Hugh Roberts, and Jamshed Kazi.

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1 Scope of the paper

Since the early 1990s, many developing countries in Asia have taken bold policy decisions to promote decentralized governance. Some examples are: transferring decision making powers to province-level and district-level governments (regencies and municipalities) in Indonesia, creating elected councils at the sub-district and village level in India and entrusting them with implementation of development programmes, replacing the bureaucrat as district head by an elected nazim (administrator) in Pakistan, and allocating spending responsibilities in Vietnam to lower level governments at the province, district and the commune (a group of villages) level through their respective elected People's Councils.

Major arguments put forward in favour of decentralization are: increased grass-root democracy, protection of freedom and human rights, increased efficiency through delegation of responsibility, higher quality of services, and enhancement of social and economic development aimed at overall poverty reduction.

However, local governments may lack the capacity to translate national visions and strategies into concrete measures. The legal and regulatory system may not provide for full and meaningful participation of citizens in resource allocation and expenditure decisions. In such a situation local service delivery may deteriorate where financial and administrative capacity is weak. Increased local authority without adequate capacity may also allow the elite to dominate local politics, and to increased corruption, especially when financial oversight of local officials is weak. Hence, capacity development instruments must accompany decentralization, or follow soon after creation of local institutions.

This paper discusses different institutional arrangements that build capacity for decentralized and participative governance at the sub-national level. These include enhancing the capacity of local units to plan, finance, and manage the delivery of services to their constituents by improving autonomy, accountability, transparency, and responsibility at all sub-national levels. Four capacity development and policy instruments are described below. These are clear assignment of decision making powers with appropriate administrative staff and functions; fiscal decentralization; promoting participation and decision making by the people through locally elected councils with special attention to the marginalized sections of society including women; and most importantly, building accountability relations.



2 Clarity regarding devolution of functions and staff

In many cases, institutions are created at the grassroots level without appropriate transfer of authority and responsibilities. In India, village councils (called panchayats) were set up through a Constitutional Amendment in 1993, but it was left to the provincial governments (called states in India) to decide what functions would be transferred to them. In most cases, states are reluctant to relinquish their authority to the district and village councils. Except in a few states, such as Kerala and Karnataka, transfer of staff to the elected councils has not taken place. In general the transfer of sectoral, administrative and fiscal responsibilities to panchayats has not occurred in most states. There is thus an acute deficit of untied funds, functions, and functionalities at the sub-district and village level.

In Cambodia decentralization reforms took place in January 2001 which enabled citizens to elect commune councilors. However, there is a general lack of clarification and delineation of mandatory and optional tasks in service delivery. No significant public service has been delegated to commune (called sangkat) councils. Deconcentration to these councils has been confined to relatively routine activities such as civil and voter registration and the collection of basic statistical information related to development planning. Despite the commune/sangkat's capacity to do much more, there is a hesitation or unwillingness of most national ministries to delegate substantial powers to any sub-national agency.

On the other hand, transfer of power to provinces and district governments in Indonesia has been accompanied with transfer of about two million central civil servants to the regions and districts. This has built capacity at the local level, improved service delivery, and strengthened grassroots democracy.

Often local governments are multi-village in nature, whereas higher social capital exists at the village level. For instance, communes in Vietnam consist of several villages. Often, individuals do not feel involved in the decisions taken by communes. One option is for government to consider creating a legal forum of all village voters where all important decisions pertaining to that village are taken in an open house. Such forums, where they exist, have only a recommendatory role. This needs to be enlarged to actual decision making powers, both financial and administrative. At least for grassroots functioning, direct democracy would be preferable to delegated democracy.

Provide incentives for devolution – In countries with a federal structure, a province that devolves functions and staff to the lower level elected bodies should be given increased financial allocations by the centre. Reluctance to do so should draw sanctions. A transparent



formula for devolution of funds to provinces, as in India, and to districts should be developed that will reward those units which promote transparency, delegation, and participation.

In addition to transfer of staff, local governments need to be fully involved in programme implementation. Yet, local governments are often ignored or bypassed in development efforts of central government. In MDG related programmes donor support is usually channelled through central government apparatus that may not always reach the poor. The programme may have good design but impact in the field is often difficult to trace after the programme is over. In some countries the donors have turned to civil society organizations, again bypassing the local governments – "a critical missing piece in the poverty reduction puzzle"- to implement their programmes. The tendency on the part of the donor and international lending agencies to engage civil society groups, instead of democratically elected local governments, thus is undermining the very efforts of decentralization and sustainable poverty reduction efforts.

3 Fiscal decentralization

One indispensable condition for decentralization to work is adequate fiscal autonomy for local governments. Often, responsibilities transferred in developing countries consist mainly of administrative functions; transfer of financial responsibilities has been inadequate. Hard budget constraints prevail at the local level, leading to unfunded mandates and limited macro economic impact.

For instance, Indian village councils are given tied funds to carry out local construction works, but are subject to three different financial controls. The list of works has to be approved by a higher level sub-district (called Blocks in India) authority, measurement of work is done by a government engineer, and the cheque for payment is to be countersigned by the Block Development Officer. Though the Indian Constitution defines the village councils as self-governing bodies, in actual practice, these function mainly as agencies for carrying out a few programmes of the state and central governments.

One of the ways to assess the extent of financial decentralization is to study the ratio of sub-national share in total revenues and expenditure. China and Mongolia have a sub-national share of public expenditures over 30 percent, with Malaysia and Indonesia under 20 percent, and Philippines and Thailand under 10 percent. However, higher expenditure at the local level should be matched with higher tax collection at that level. For instance, the share of local bodies in total revenues is less than five per cent in India, rendering them totally dependent on central and state governments for devolution of funds.



Local governments should have the right to levy and collect taxes on their own. For instance, Tamil Nadu (a state in South India) collects land tax through government machinery and then transfers 85% of the collected revenue to the panchayats. It would be more cost effective (besides instilling in the local panchayats a greater sense of accountability) if the entire burden of collection is shifted to the village panchayats, who then collect land tax and transfer 15% to the state government. Today the panchayats hesitate to levy and collect taxes, as they prefer the soft option of receiving grants from government. This should be discouraged and the local bodies be encouraged to raise local resources for development and then receive matching grants from the Centre/States.

The more dependent local bodies are on their own citizens for financial resources, the more likely they are to use scarce material resources to promote human development and reduce poverty. Local bodies should not only decide the rate of taxes (subject to a minimum prescribed from above) on land, irrigation, drinking water, power, new construction, and houses, but also be given the authority to levy taxes on politically unpopular subjects such as agricultural income on large holdings.

In Indonesia, both provincial and local governments have some power for collecting taxes. Law 33 of 2004 emphasizes the tax revenue sharing of property tax, land transfer tax, and personal income tax. The more significant taxes such as income tax, value added tax, land and property tax are all under control of the central government. While the local governments receive a part of the tax revenue, they do not have authority in setting the tax rate and tax base. As a result, the local governments have little room to provide incentives for local investors.

On the whole, Indonesia experienced a comparatively smooth transition from a highly centralized state to a significantly more decentralized mode of governance. This was primarily because of the fact that the central government has continuously increased the pool of resources transferred to sub-national governments, both in relative and absolute terms. The districts have greater dependence on the intergovernmental transfers than the provinces. For instance, districts have relied almost 90 percent on the intergovernmental transfers to fund their expenditures compared to 55 percent for provinces on the transfers.

Of course, prudent fiscal management would also need citizens' voices being expressed, heard, and responded to. This is discussed in the next sections.

4 Local elections, participation and informed decision making

A very large number of governments have tried to develop capacity and participation by having elections at the grassroots level. In South Asia, India and Sri Lanka have direct elections, but not



Bangladesh, Bhutan, Maldives, Nepal, Pakistan where there are higher levels of local administration but no directly elected bodies.

Indirectly elected district nazims in Pakistan – accountable to whom?

The indirect election of the district nazim (administrator) in Pakistan complicates the accountability linkage with voters because the re-election of an incumbent nazim is not decided directly by the voters, but rather by a few hundred union councillors who function at the sub-district level. Indirect elections like these raise the potential for abuse. Nazims are very conscious of the need to keep their "electoral college" (i.e., the union councillors) on board. Therefore, they often decide to use funds by parcelling out small sums to councils in order to try to secure support. As a result, union administrations may not be left with sums needed to carry out the schemes their constituents need, particularly water and sanitation for rural areas. Conversely, where nazims have used other criteria to allocate development funds between union councils, those who have received little funds have accused the nazim of partisan behaviour.

In some cases, members of national assemblies are ex-officio members of the local governments (LG), as in Nepal. This is most evident in Papua New Guinea's provincial assemblies, which are led by provincial MPs and include all national Parliamentarians from the province. In other cases, officials from the local administrations are also represented on councils, although they often act as observers without voting rights. This is the case in Timor-Leste and Bhutan, and in Nepal, where the interim local bodies in place since 2002 have been chaired by a Local Development Officer (the secretary to the District Development Committees appointed by the Ministry of Local Development). Representatives of sectoral ministries are represented in LGs in some cases; Nepal is a good example of line agency representatives constituting members in the interim local bodies (district as well as village level). In such cases, where local executives are appointed by institutions other than the LG they are expected to serve, the issue is almost always one of accountability and the relative power of elected representatives.

Such arrangements dilute the control and sense of ownership of citizens on the local body. Even when the representatives of higher echelons of government have no voting rights, it is seen that their very presence inhibits free and frank discussion, and often the decisions taken seem



influenced by the advice and interests of the representatives from the higher levels of administration, especially when the local body is dependent for funds.

Participation and empowerment - Decentralized programmes require strong local organizations. When local organizations get the opportunity to manage resources and support development, they can become stronger. Promoting peoples' participation and ensuring their voices are expressed, heard, and responded to, would require taking steps that enhance their social capital, confidence and collective capacity for action.

Participation should not mean getting people to agree to and go along with a project which has already been designed for them, or to get support of a few leaders. In such cases people would not identify themselves with the decision taken or assets created, nor would they undertake the responsibility of maintenance of assets. "I manage, you participate", was the dominant underlying principle behind many projects that tended to make people aware of their responsibility without giving them any authority to spend funds or to manage assets. People's participation was then expressed not in a manner that would establish their rights over assets, land or its produce. The important question is participation for whose benefit, and on what terms?

Participation should include the notions of contributing, influencing, sharing, or redistributing power and of control, resources, benefits, knowledge, and skills to be gained through citizens' involvement in decision making. Participation is a voluntary process by which people, including the disadvantaged (in income, gender, caste, or education), influence or control the decisions that affect them. The essence of participation is exercising voice and choice, and developing the human, organizational and management capacity to solve problems as they arise in order to sustain improvements.

Empowerment is a result of participation in decision making. An empowered person is one who can take initiative, exert leadership, display confidence, solve new problems, mobilise resources, and undertake new actions. Hence empowerment is a leading outcome of successful capacity development at the individual and institutional levels.

Such empowerment can be facilitated by promoting mass organisations and self-help groups, as well as incorporating concerns of marginalised sections of society, such as gender, in the design of the capacity development programme. As example: developing women's groups or farmers' association as service providers. These organisations may be directly involved in delivering and monitoring services to the people. They may also develop the capacities of smaller groups such as self-help groups and water associations. Such mass organisations should be trained, and the



degree of peoples' participation and community empowerment should be measured periodically, especially new informal groups, such as credit groups and user associations.

For certain programmes, such as credit or small scale irrigation, functional groups at the sub-village level should be created, especially where women or ethnic minorities are concerned who otherwise find it difficult to express themselves in larger groups, or are not well represented in the power structure. Smaller functional groups achieve better empowerment and build confidence of its members. At the same time, too many parallel agencies should be avoided, as these tend to be temporary in character, and get disbanded once the project cycle is over.

Improving Gender participation - Until recently in most developing Asian countries women's interests did not receive sufficient attention. Development has been concerned with producing surplus for the market economy, and because women remain confined to subsistence rather than cash sectors of the economy, they are often not able to attract serious attention from planners. Programmes tend to assume that benefits to the male head of the family will percolate down to women and children.

While it is now universally accepted that identifying the interest of the family with its male head exhibits a gender bias, securing women's active participation in community affairs will need both macro and micro level strategies. For instance, laws relating to inheritance, especially of agricultural land, need to be reviewed as these still favor men. Discriminatory policies in succession laws need amending. Some countries, such as India, have provided reservations for women as village and sub-district/village heads. Training programmes can improve capacity and confidence. In addition, government should appoint more women extension workers who will encourage women to speak in meetings.

Another practical suggestion is to encourage girls to learn riding bicycles in primary schools, and motorbikes in secondary schools as a part of their syllabus. This will not only improve their mobility and attendance in schools, but also give them more confidence in their ability. The sight of a girl riding a motorbike is also likely to inspire and empower all female adolescents.

Similar strategies may be needed for other marginalised groups.

Safeguards against elite capture - The overall outcome of decentralization in developing countries is mixed: good and not so good cases of success. Despite an elaborate legal framework to ensure participation of weaker sections of citizens in resources, benefits and services, elite domination prevails. For instance, public goods provided by local government are



community and site specific and immigrants, minorities, or other ethnic groups are often excluded. Specific safeguards are needed.

Empowerment is a slow and difficult process, and it requires persistence on the part of the national government to create opportunities for the poor to voice their concerns and demonstrate their abilities. Therefore one should not expect quick results and sufficient time should be weaved into projects for capacity to develop.

Most sub-national units may be dependent on devolution of funds from the national level. In the initial years of creating local units, oversight function by ordinary citizens over elected representatives may not be fully developed. In order to prevent elite capture of local institutions it may be desirable to establish certain norms for expenditure, as illustrated in the next example.

Vietnam has four levels of government: centre, provinces, districts, and communes (a group of villages). Though the provincial governments had gained fiscal autonomy and more stable transfers from the central government under the 1996 Law, budgets at lower levels of government need to be approved by both the People's Council at their level and by the government at a higher level. Even allowing provinces a greater say in the allocation of budgets to districts and communes may not ensure they spend more on rural districts where a predominant number of poor people live. This could happen for two reasons.

- First, the lack of centrally determined mandatory spending norms for intra-provincial allocation of funds enables provincial governments to develop their own budget norms.
- Second, better-educated citizens who live in physically advantaged districts tend to have more immediate access to provincial government officials whose offices are also located in urban districts. Thus, they are able to exert greater influence on officials to tip the expenditure balance in favour of public services that will increase their income.

Seeking greater fiscal decentralization by empowering provinces with expenditure flexibility is, thus, not always a guarantee of pro-poor resource allocations, especially in situations where most revenue is centralised and then devolved to the sub-national formations. The central government would in such case need to provide detailed instructions on what criteria are incorporated in budgeting norms to address social needs. Providing for social audit (discussed in the next section) by citizens may also curb the tendency towards elite domination. In doing so, provinces with a relatively larger number of impoverished people can benefit more from fiscal decentralization.



5 Building accountability relations

Accountability is a prerequisite for improving public sector performance. Information is the key to accountability. Unless the public knows what public goods and services are provided, the quality of goods and services is provided, the intended beneficiaries, associated costs, and who paid for them, local constituencies will not encourage effective government. Bangalore (a metropolitan city in South India) and several other Indian districts use report cards to evaluate service delivery. Uganda requires beneficiary feedback on some government services, while Nicaragua uses a series of public opinion surveys to reform the bus system and adjust fares.

Through a carefully designed methodology, it is possible to measure the performance of local institutions, and the extent to which they are inclusive and participative. Their performance should be publicised so as to increase a sense of competition amongst them.

Governments should commission surveys of the perceptions and experiences of the ordinary people in sectors which have a public interface. These surveys will measure both public perception and experience of the integrity of staff interacting with the public and overall performance in the delivery of services. Once people know their views matter, and are taken into account in formulating policies, their confidence in their abilities will further increase.

Decentralization may reduce the imbalance between the centre and the regions, but, in the absence of appropriate accountability norms, it may increase disparities between richer and poorer regions. For instance, the concern of some Indonesian and foreign experts is that in the absence of transparency and accountability at the local level, decentralization could bring about corruption and the rise of “little kings” in the regions. In this regard, it is worth noting that the experience of the Philippines with decentralization was not entirely successful. According to former Philippine Presidential Adviser Jose Almonte, some of the unintended effects included corruption at the local level, emergence of fiefdoms, and degradation of services formerly delivered by the central government.

The capabilities of Indonesia’s civil servants also need upgrading in various areas. This is particularly true for local governments as decentralization has dramatically increased their responsibilities without commensurate improvements in capacity. There are weak recruitment and training systems, inefficient allocation of civil servants, a compensation system that is not entirely transparent or merit-based, and the absence of credible sanctions for low performance and corruption. Incentive structures are not conducive to initiative or cooperation.

Though the “command and control” management practiced in Indonesia during the Soeharto years has broken down in many areas, modern management principles have yet to be applied. In response to these challenges, the Government is piloting public sector reforms of specific



systems in selected ministries, agencies and localities. The reforms involve strengthening human-resource capacity, revising standard operating procedures, clarifying job descriptions and job grading, enhancing performance incentives through greater pay and promotion linkages, and improving human-resource management functions. The Government is also beginning to implement important reforms in key systems for public financial management, public procurement, business regulation, auditing, and monitoring and evaluation.

Develop the mechanism of social audit - Most ex-British colonies have a strong institution in the Comptroller and Auditor General (CAG) Office, who do audit of government accounts. In addition, some governments have entrusted the audit function of local spending to committees of village elders assisted by well respected, knowledgeable and non-political bodies of individuals, who involve in a transparent manner all categories of stakeholders. Such an audit supplements conventional audit and often provides leads to it. It helps public agencies to understand their performance as perceived by the stakeholders and subsequently draw up action plans to improve on that performance.

Governments may therefore consider introducing social audit of service delivery performance by assessing the experiences of those receiving the particular service. With community participation, the evidence could be collected from households, communities, and the service itself, which would promote accountability, equity, effectiveness, and value for money.

Citizen's Charter - With a view towards making service delivery people-oriented and client centred, sub-national units should introduce a citizens' charter on a pilot basis for offices that have a public interface, clarifying citizens' entitlement to timely delivery of public services. The citizens' charter should clearly define the standard for the services being rendered. It will also specify the remedial mechanisms available to the citizen.

For example, the Singapore Police Force pledged to answer emergency calls within 10 seconds at least 90 per cent of the time; to arrive at urgent incident sites within 15 minutes and non-urgent ones within 30 minutes at least 85 per cent of the time; to respond to letters from the public within five working days at least 90 per cent of the time; and to update victims of crime on the outcome of cases within 28 days at least 90 per cent of the time.

A second example is the pledge by the Singapore Immigration and Registration Department to issue identity cards within seven working days and make changes of address within 10 minutes. The Registry of Companies and Businesses also promised to process 98 per cent of applications for the registration of new companies within 10 minutes.



After promulgating citizen's civil charters the departments should ensure that the necessary changes have also been introduced in every functional aspect of a department and at every level to conform to the standards set in demand of these charters.

During introduction of citizens' charters, it should be noted that merely notifying citizen's charters should not be an end in itself. The department concerned should organise large-scale capacity development programmes to bring in attitudinal change in their employees. Official interface with public on at least one fixed day per month should be organised in addition to routine interaction.

In general, the following strategies would strengthen local government responsiveness, accountability, and effectiveness by:

- Creating opportunities for citizens to express their views and priorities for local services.
- Creating means for citizens and the media to gain access to public meetings, records, and information, as in India through Right to Information Act.
- Supporting participatory procedures allowing citizen input on decisions regarding resource allocation and planning.
- Developing and using procedures for citizen input on major local government decisions—annual budgets, land use, and construction.
- Enhancing trust between local officials and citizens. Channels for citizen-civil servant communication need to be created through e-governance which will improve decision making, reduce opportunities for corruption, and build consensus on critical community issues.
- Promoting partnerships among local governments, civil society organizations, the private sector, and other groups.

6 Concluding remarks

Many institutional barriers exist that undermine the process of devolving power to the local authorities. These include strong command and control structure by different line ministries, mistrust of local officials by the central authorities, and an ineffective local capacity with few skills for implementation of central government policies. As discussed above, these issues will have to be addressed at the macro level along with devolutionary policies.

In substance, the positive experiences and lessons from various developing countries linking decentralization and poverty reduction can be summarized as follows:

- When access of the poor to resources and management decisions is ensured through decentralized local governments, poverty reduction through local effort produces better results;
- When participatory local governance and social mobilization go hand in hand, the poor have better access to services and significant volume of local resources can be mobilized to deal with poverty issues locally;
- When authority to decide on the use of resources and services moves one step closer to people, accountability to poor and to people, in general, increases;
- Under such a system, communities and poor can effectively organize themselves to demand and receive services locally and also influence the decision making processes; and
- Civil societies can take catalytic roles to mobilize communities and ensure that their voices and choices are heard.

The success of decentralization depends heavily on training for both national and local officials in decentralized administration. Technical assistance is thus required for local governments, private enterprises and local non-governmental groups in the planning, financing, and management of decentralized functions.

In some developing nations, decentralization often leads to corruption, favouritism, and nepotism. Some of the reasons are lack of institutional capacity, scarcity of experts, lack of effective controlling mechanisms, poor focus on outcomes, and lack of will and commitment of policy makers and senior civil servants to delegate genuine authority.

The people to whom power is delegated via decentralization can abuse the power they receive. Civil service organizations with decentralized powers can go their own way. As nations increasingly delegate power, understanding how this process works becomes more important. The effectiveness of a decentralization policy depends on how well it is administered. A very common error is to delegate authority to act without adequate standards for guidance or adequate audit and oversight mechanisms to ensure compliance with general policies. This would seem so elementary that it would hardly require iteration, but the frequency of violation is too great to ignore.

This suggests that without a strong controlling mechanism, decentralization and granting autonomy, and for that matter any other reform, is likely to encourage favouritism and nepotism. Therefore an objective analysis of the political climate and managerial competence of each country would have to be done before introducing radical reforms and deciding their sequence.



To sum up, decentralization introduces a new relationship of accountability—between national and local policymakers—while also altering existing relationships, such as that between citizens and elected politicians. Only by examining how these relationships change can we understand why decentralization can, and sometimes cannot, lead to better service delivery. In particular, the various instruments of decentralization—fiscal, administrative, regulatory, market, and financial—affects the behaviour of service providers. Likewise, and perhaps more significantly, the incentives facing local and national politicians can have a profound effect on the provision of local services. Finally, the process and sequencing of implementing decentralization is also important in influencing service delivery outcomes. If properly designed and implemented, decentralization can broaden local peoples' participation and reduce poverty, as it did in Bolivia and South Africa. Donors and civil society should take it as an opportunity to deepen democracies by developing capacities at all levels.

Centralization and decentralization are not "either-or" conditions. In most countries an appropriate balance of centralization and decentralization is essential to the effective and efficient functioning of government. Not all functions can or should be financed and managed in a decentralized fashion. Even when national governments decentralize responsibilities, they often retain important policy and supervisory roles. Central ministries often have crucial roles in developing appropriate and effective national policies and regulations for decentralization and strengthening local institutional capacity to assume responsibility for new functions. They must create or maintain the "enabling conditions" that allow local units of administration to become effective and take on more responsibilities with passage of time.

Decentralization has been a complex and fragile process. Local governments have been confronted with problems of legitimacy, lack of technical and planning capacities, as well as limited financial resources. Building a new administrative culture – based on local management systems that are participatory, transparent and accountable is both a necessity and a difficult task. UNDP and other development partners should collaborate with national governments and help develop the capacity of the local units through measures, some of which are described in this paper.