

Chapter 2

Decentralization: Potential and Challenges for Rural Development

Abstract Despite arguments that decentralization creates successful rural development, studies in many countries find that the adoption of decentralization does not always make rural development more effective. While decentralization theoretically offers substantial opportunities for successful rural development, all too often the implementation is hampered by various challenges depending on the specific characteristic of a country and locality. This chapter deals with this challenging issue, which is to identify the potentialities and challenges brought by decentralization for rural development. Through literature reviews, this chapter suggests that countries applying decentralization and expecting the benefits in rural development pay attention to several factors: formulation of the local budget, social capital, local capacity and community participation.

Keywords Decentralization • Political decentralization • Fiscal decentralization • Administrative decentralization • Potentiality • Challenge • Rural development

2.1 Introduction

Many countries are now adopting decentralization, in various forms, to develop rural areas. By the early 1990s, 84% of the countries with populations over than 5 million adopted decentralization (Dillinger 1994). This caused Conyers (1983) to call decentralization the latest fashion in development administration. The World Bank, the main international donor for community development and poverty alleviation, has become one of the most active institutions promoting decentralization in term of development administration or intergovernmental relation within developing countries. While decentralization has gained wide attention from academics, development practitioners, international donors and governments, there is

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no single universal design for decentralization. The designs vary across the countries depending upon their political and administrative arrangements.

There are usually two main motivations for applying decentralization in a country. Firstly, the implementation of decentralization may be economically motivated, usually due to the failure of the central government in managing community development. A central government is often perceived to lack the knowledge to deliver programs that meet the preferences of people in living areas. On the other hand, a local government is regarded to have a better understanding of local problems and preferences. Thus, the most common economic motivation for decentralization is to create allocative efficiency in government spending, distribution equity and targeting effectiveness. Secondly, decentralization may also be politically motivated from the desire to patch up the failures of the central government in promoting democratic values in rural development and from the fear that the centralized system will result in unchecked power. Thus, the decentralization from a political perspective aims to shift the center of decision making to the local level in order to promote participation, accountability and transparency. There are also many examples showing that decentralization is implemented to accommodate pressure from separatism and to maintain the unity of heterogeneous national states. Hypothetically, decentralization will result in better allocation of development funds, more precise targeting mechanisms and more suitable development outputs for the needs of rural residents and improved governance.

The increasing popularity of decentralization has often led to a misunderstanding that it automatically results in successful development. However, there has been increasing evidence that decentralization does not automatically create successful rural development. Jutting et al. (2005) make a review of implementation of decentralization in nine regionally dispersed countries. They find that only in the province of West Bengal and Kerala in India and Bolivia did decentralization positively impact poverty alleviation. It had a somewhat positive impact in South Africa, Philippines, and Ghana, a mixed impact in Uganda and a negative impact in Guinea and the province of Madhya Pradesh in India. Their review finds a lack of evidences showing that decentralization directly increases efficiency and improves the governance of more demand-oriented social services. Overall, the connection between decentralization and development is not clear. While central government domination seemed to result in impressive development in many Asian countries like Singapore, Taiwan, South Korea, and Indonesia until the 1990s (Pempel 1999), some countries applying decentralization like Mozambique, Malawi, Guinea and the province of Andhra Pradesh and Madhya Pradesh of India did not perform well in development (Jutting et al. 2005).

According to Cheema and Rondinelli (2007), decentralization is not a panacea for all government ills and development problems. The success of decentralization in community development depends on complex factors ranging from the design to the country specific context of implementation. Cheema and Rondinelli (2007) argue that the failures of decentralization are due more to government ineffectiveness in implementation than to the weaknesses in the concept itself. Formulating a proper design is only the first half of the puzzle in executing successful

decentralization. All too often, a good design fails because governments pay less attention to the implementation stage. Thus, the more challenging and important part is ensuring that the design is properly implemented.

Parker (1995) once proposed what he calls as the soufflé theory of decentralization. As with preparing a delicious soufflé, successful decentralization needs precise ingredients combining various social, political and institutional factors that are country specific. Parker's theory implies not only the impossibility of standardizing the design of decentralization, but also that the art of implementing it will vary from country to country.

This chapter aims to explore the link between decentralization and rural development by focusing on the implementation stage. To do so, it will focus on policy stages. A policy generally consists of three stages, which are formulation, implementation and reaping the benefits. The policy formulation is translated into budgeting decision. The implementation of a policy is influenced not only by the skills of the implementers, but also by the socio-political and cultural conditions of a community. The benefits of development policy can be seen from its impact on poverty alleviation. Using these stages, this chapter will systematically identify the advantages and challenges brought by decentralization in rural development.

2.2 Conceptual Terrain

2.2.1 *The Concept of Decentralization*

The term decentralization has been extensively used in literature, through which its meaning had evolved from time to time. Most books principally refer to the definition and typology of decentralization developed by Rondinelli and Cheema. Their early concept was developed in the 1980s when decentralization was defined as “transfer of planning, decision making, or administrative authority from the central government to its field organizations, local administrative units, semi-autonomous and parastatal organizations, local government or nongovernmental organization” (Rondinelli and Cheema 1983). They divide decentralization into three categories, which are:

1. Deconcentration, which is a distribution of tasks from central ministries to their field offices. Although the field offices are located far from the headquarters, they are formally institutions of the central government. In deconcentration, the central ministries retain decision making while the field offices are only implementer agents;
2. Delegation, which is a transfer of tasks from the central government to organizations, public enterprises or specific groups outside the government bureaucracy;
3. Devolution, which is a transfer of decision making from central to the local government. In devolution, a local government is autonomous and not a part of the central bureaucracy

The earlier concept of decentralization basically emphasizes the transfer of tasks within the government bureaucracy. This is because it came from a period and circumstances where the government was the only institution formulating and implementing public policy. Along with the spread of democratization, however, the government lost its monopoly on public policy. There are many other actors like civil society, communities and markets, which should be involved in public decision making. Thus, in recent times, Cheema and Rondinelli (2007) note that the typology of decentralization has been evolved into:

1. Political decentralization, which includes the establishment of procedures to increase participation in the local political process. Devolution of power to local governments is equal to political decentralization;
2. Administrative decentralization, which includes the deconcentration of the central bureaucracy and the delegation of government tasks;
3. Fiscal decentralization, which includes the transfer of revenue sharing and expenditure discretion to local governments;
4. Market or economic decentralization, which includes liberalization, deregulation and privatization.

In literatures, a clear categorization of decentralization rarely takes place since there is clearly an overlap in its typology. Decentralization is always a combination of various types ranging from deconcentration to devolution. In any country, decentralization at least consists of an arrangement among political, fiscal and administration functionaries. There is often a bias in interpreting decentralization, especially from the viewpoint of democracy. Many people often emotionally claim that decentralization is the most democratic form of intergovernmental relationship, thus better than a centralized system. In order to have a comprehensive understanding of decentralization, multi disciplinary approaches are needed to analyze it.

2.2.2 The Concept of Rural Development

Rural areas can be defined from perspectives of ecology, economy, or political administration (Wiggins and Proctor 2001; Hoggart 1990). Ecologically, rural landscapes primarily consist of fields, pastures, forests, rivers or mountains where settlements are scattered with minimal physical infrastructure. Economically, most rural residents work in farming, raising livestock, forestry and fishing, implying a high incidence of poverty. While rural areas are relatively easier to recognize from ecological and economic perspectives, it is ambiguously defined from a political administrative perspective. The definition of a rural administration in many countries does not refer to its ecological character. Efforts to make a clear distinction between rural and urban areas have become more complex because economic transformation has created sub-urban areas where rural and urban characteristics are mixed.

Rural development is broadly defined as a general development program conducted in rural areas. Ellis and Biggs (2001) note that until the 1970s, rural development was mainly regarded as agricultural development with the aim to increase crop production. Theories of modernization and economic growth, which emphasized the meaning of development as the effort to increase productivity and economic surpluses, were seen to heavily influence the conceptualization of rural development. With a focus on increasing agricultural production, rural development occurred mostly through the Green Revolution (Fernando 2008).

The emergence of more diversified rural livelihoods led to a change in the concept of rural development. When the concept of development started to accommodate not only economic but also non-economic dimensions, rural development in the 1980s began to adopt an empowerment approach targeting to a specific group of disadvantaged and rural poor (Ellis and Biggs 2001). This approach explicitly introduced two new factors, which were people consideration of non-economic well-being and a focus on targeting the rural poor. Rural development did not only intend to improve income and productivity, but also the quality of life, specifically health, education, physical infrastructure, environment and gender. Fernando (2008) categorizes the dimensions of rural development as economic, social, and political. The economic dimension includes efforts to provide the capacity for the poor to gain benefits from economic growth. The social dimension includes efforts to eliminate social inequalities within the rural community. The political dimension includes effort to provide the space for the poor to participate equally in public decision making.

Currently, there are at least three main elements found in academia aiming to elaborate a concept of rural development, as follows:

1. Multi-sectoral programs covering not only agriculture, but also infrastructure, micro finance, environment, human resources and so on.
2. The objective of rural development is to improve the quality of life of villagers, which includes income, housing, education, health and access to other public services.
3. Although rural development targets the rural community as a whole, most books agree that it should give priority to the poorest group

Alleviating poverty is the final objective of rural development. The literature broadly defines poverty as a lack of basic necessities required to maintain a sufficient standard of living (Haughton and Khandker 2009). In most countries, poverty is measured through the establishment of poverty line, which is a minimum level of income needed by a person to obtain the minimum calorie intake and other services needed to live properly. The World Bank set a poverty line at US\$2 per day for moderate poverty and US\$1 per day for extreme poverty. Many countries have set their respective poverty lines to suit the conditions and needs of the people within the country.

Poverty is a multidimensional issue (Haughton and Khandker 2009; Ravallion 1996). Therefore, a simplified measure based on income alone may not comprehensively describe the nature of poverty. Many books have proposed methods to measure the multidimensionality of poverty, yet according to Ravallion (1996), most of them face both methodological and conceptual challenges. Henry et al. (2001) argue that a relative poverty condition can be identified from food consumption, living conditions, assets, education and expenditure. Although this method is still not able to measure the multidimensionality of poverty, it provides a relatively easier way to identify the poor in a community.

2.3 The Link Between Decentralization and Rural Development

In the context of rural development, Parker (1995) explains that decentralization has the potential to enhance participation, mobilize resources efficiently, build institutional capacity and increase accountability. These appear as not only the impact of a decentralized system, but also as prerequisite factors to achieve the final expected impact. The results of a decentralized system in rural development are effectiveness, responsiveness and sustainability. Effectiveness is achieved by providing public service cost-effectively and targeting the poor precisely. Responsiveness is achieved by better meeting the demands of local communities. Sustainability is achieved by creating political stability, fiscal adequacy and institutional flexibility.

Parker's conceptual framework assumes that a decentralized system is well managed. Yet, Parker does not elaborate on the results of poor management. Johnson (2001) notes that, unless it is well managed, decentralization has a potential to exacerbate rural poverty in several ways. Firstly, the power to collect local government revenues may trigger increasing prices for public services, thus becoming a financial burden on the poor. Secondly, the poor's low literacy rate may hamper their ability to engage in the local political process. Thirdly, the expected costs of engaging in local political activities may discourage the poor from joining. Fourthly, there is a potential for local corruption, where the benefits of decentralization are enjoyed by a small elite group within a rural community.

2.3.1 Potential for Decentralization in Rural Development

Fiscal Decentralization and Pro-poor Budget

Those advocating fiscal decentralization argue that it will provide local governments more discretion regarding expenditures. This would, in turn, provide space to promote a participatory budgeting system by which rural residents can channel their voices and propose their development programs. Assuming that a local government

knows local problems better than the central government does, decentralization is expected to result in a better allocation of development funding (Braun and Groat 2009; Ebdon and Franklin 2006). Decentralization will also improve the targeting effectiveness and compatibility of development outputs and local needs.

Historically, the first local government to apply participatory budgeting was Porto Alegre, Brazil, a city with about 1.5 million people, one third of which live in areas lacking clean water, sanitation, schools and medical facilities. For a long time, Porto Alegre invested less on public spending. In 1986, however, a policy reform was initiated to involve the community, guaranteeing mainly representations from the poor, in expenditure decision making. This reform was aided by the willingness of local government to share budgetary information publicly and the political commitment of the district mayor to prioritize to the poor's proposals. As a result, the overall process empowered the poor to be more active citizens and decreased the bureaucratic domination in budgetary decision making (Bhatnagar et al. 2003).

In case of Porto Alegre, the participatory budgeting system substantially improved spending for public services. The representatives from relatively poorer areas could push local government to prioritize their needs so that they could obtain access to facilities that other areas already had. Thus, it also led to equal development across the regions. Bhatnagar et al. (2003) note that in Porto Alegre from 1986 to 1996, clean water coverage increased from 75 to 98% of households, the number of schools quadrupled and spending on health and education increased from 13 to 40% of the total budget.

The success of Porto Alegre has inspired many governments to utilize participatory budgeting system. Although earlier participatory budgeting was applied only in the cities of Latin America, now it is also applied in many rural local governments throughout the world. Currently, there are many forms of participatory budgeting, including from public hearings, focused group discussions, public committees and surveys identifying public preferences.

Political Decentralization and Local Participation

Community participation is essential to successful rural development. Uphoff et al. (1998) reviewing about 30 rural development programs assisted by international donors in various countries, found that the participation of local people is the main factor contributing to the success of government programs, such as infrastructure development, microfinance, capacity development, agriculture extension, education and health improvement. Community involvement contributes to the program's success by increasing resource mobilization, providing checks and balances and improving the compatibility of development outputs and the needs of the rural residents.

Decentralization, especially through the devolution of decision making to local governments, is expected to provide the maximum feasible space for villager's participation. The local government is closer to the people than the central government, so devolution minimizes the amount of time and distance to interact with the government. Cheema and Rondinelli (2007) argue that decentralization does not only provide more space for people to participate in the electing of local leaders, but

also gives them a chance to be the part of broader context through being involved in every stage of the development program.

A country is politically decentralized if the local leaders are elected instead of appointed. Political decentralization provides a mechanism for the people to elect local representatives and leaders, either directly through elections or indirectly through local council. A review by Blair (2000) in six countries (Bolivia, Honduras, India, Mali, Philippines and Ukraine) finds that although decentralization still has limitations in promoting participation, it at least provides the opportunity for minorities and marginalized groups to enter into local politics. When minorities are allocated some seats on local councils, they can work for the interest of their groups. Blair also finds that increased representation provides benefits in it, for example, by empowering its members in local decision making. In many countries where government accountability is not well established, the local election process can at least be a crude instrument to make government more accountable. When people perceive a candidate running for election is not transparent or accountable, and then they can switch their vote to a different candidate.

Administrative Decentralization and Institutional Approach in Poverty Alleviation

Administrative decentralization occurs when the central government transfers public sector tasks to local governments or other institutions outside its bureaucracy. Administrative decentralization is expected to increase government accountability since it enables people to monitor their local officers (Braun and Groat 2009). Further, administrative decentralization also aims to reduce monopoly of central government in public service provisions. Cohen and Peterson (1997) argued that by increasing the number and diversity of institutions providing services, not only will accountability be increased, but service delivery will also be better managed and tailored to local needs.

Administrative decentralization offers opportunity to apply institutional approaches in alleviating poverty, especially by involving local community institutions in executing government programs (Braun and Groat 2009; Cohen and Peterson 1997). Local informal institutions, which are usually neglected when poverty alleviation programs are solely delivered by the central bureaucracy, can be involved in administrative decentralization. These institutions generally have stronger roots within their communities and can organize the poor better than the central government. They should be empowered through financial and technical assistance, enabling them to enhance their delivery of service to the community.

Various development programs have been implemented in many countries by emphasizing the role of local institutions. A rural forest community in Nepal is a success story of the institutional approach to local resource management. In this country, the government delegates tasks to local community institutions to conserve forest. Local community, which knows the situation of forest better and is heavily dependent on it for its livelihood source, is able to utilize the forest in sustainable way. As Chetri et al. (2007) and Joshi and Maharjan (2007) find, local institutions in rural Nepal can successfully manage forest resources, making forest conservation

go hand in hand with rural poverty alleviation. In many other areas of the world, even within programs that have failed at the national level due to their improper design, there are still some areas at local level where the program can be successful. Such success is usually attributable to the local institutions that modify the designs to match the local conditions.

2.3.2 Challenges for Decentralization

Inadequate Revenue and Culture of Budget Secrecy

Decentralization requires the strong fiscal capacity of the local government in order to finance the increasing operational costs of bulky local government tasks and the increasing need for local development. In many countries, the central government usually transfers money to local governments to implement delegated tasks. Yet, besides receiving fiscal transfer from central government, local governments are expected to have their own capacity for generating local revenues.

Sources suggest several options to generate local revenue namely establishing locally-managed enterprises, extracting natural resources and collecting local taxes (Livingston and Charlton 2001; Lewis 2003). Yet, local governments are well known for having a smaller capacity for managing business. The easiest options for generating revenue usually lie between a continuous extraction of natural resources and a progressive increase in local taxes. Consequently, fiscal decentralization may create environmental degradation due to the over-extraction of natural resources or an increase in the costs of economic activities. Such efforts to generate local revenue can be counter-productive for development, as could be seen in Indonesia during the initial years of decentralization. Casson and Obidzinski (2002) discover that deforestation increased in many localities after decentralization due to the desire to collect more local revenues. Another study conducted by Lewis (2003) finds that the amount and types of local taxes in Indonesia increased after decentralization, presumably because local governments did not know how to increase local revenues. His study finds that the increase in the amount and types of local taxes raised operational costs for economic activities, which in turn negatively affected investment and local economic growth.

Decentralization may create fiscal imbalances, and participatory budgeting sometimes fails to improve public spending and fiscal imbalances. For example, Sutiyo and Maharjan (2012b), in their study in Purbalingga district of Indonesia, find that after about ten years of decentralization in the country, the district was still heavily dependent on revenue transfer from the central government. Local revenues constitute only about 10% of the total budget, most coming from local taxes. Furthermore, rural residents are still not satisfied with the spending allocation since less than 10% of their proposals were accepted by the district government. Expenditure on agriculture, infrastructure, health, education constitutes only about 29% of total budget. Most of the local budget is spent on salaries and other bureaucratic operational costs. Their study finds that low willingness of the district

government to share information and low political commitment to prioritize community proposals have hindered the effectiveness of public participation.

Comparing the case of Purbalingga District in Indonesia (Sutiyo and Maharjan 2012b) and Porto Alegre (Bhatnagar et al. 2003), it can be seen that transparency and political commitment are very influential. To be successful, participatory budgeting requires the willingness of local authorities to share the budgetary information and to give high priority to community voices (Bhatnagar et al. 2003). Local authorities should share budgetary information openly in simple language so that the poor know what is feasible when proposed. In principle, participatory budgeting requires a shift from the culture of secrecy in budgeting to open information.

The implementation of participatory budgeting still faces significant challenges because studies have found that the budgeting process in many developing countries is not community friendly (Andrews and Shah 2005). Information gaps and secret documents are still major obstacles to make a suitable budget (PRIA Global Partnership 2010; Andrews and Shah 2005; Wampler 2008).

Insufficient Social Capital

Certain local social conditions are needed for the success of decentralization. Supportive local conditions are reflected in social capital, which is generally defined as the features of social organization that facilitate community cooperation for mutual benefit (Putnam 1993). In his study on twenty local governments in Italy, Putnam finds that development programs were more successful and economic growth was higher in northern Italy than in the south. One factor contributing to the success of northern Italy in community development is the robustness of its social organization. Active community participation in social organizations in north Italy has made relation between community and government closer, which in turn improved governance. This contrasts with southern Italy where institutional membership is less active. Putnam also notes that social capital can make the pattern of relation between government and community more flexible, where voices, critiques and ideas can be communicated without significant obstacles.

A study by Putnam (1993) has established an understanding that social capital will significantly influence the success of decentralization. Strong social capital is needed to foster successful community development, and vice versa. Robust social capital will produce a dense civil society, which is a necessary condition for modern democracy and well-functioning political institutions (Fukuyama 1999).

To be successful, decentralization should be rooted in functioning local and participatory self-governing institutions (Hadiz 2010). The main challenge of implementing decentralization in many developing countries is that social capital cannot be created immediately. Rather, it is a product of long interactions entrenched in the history of a community. In this regard, it is worth seeing the sociological nature of rural community. According to Uphoff (2004), a rural community is not a cohesive and harmonious social entity but segmented by various clans and families. In many traditional rural areas, power at the local level is more concentrated and more elitist than at the national level (Rondinelli and Cheema 1983). The

concentration of power will inevitably be translated into political influence in local decision making, and the elite within a rural community may benefit from decentralization.

Low Capacity of Local Institutions

To be successful in promoting the institutional approach to poverty alleviation, decentralized programs should be executed by institutions with enough capacity. Yet, there are many concerns that local institutions may have not enough capacity. UNDP (2002), in the report on capacity development programs conducted across the world, concludes that successful and sustainable capacity development still cannot be achieved, and despite training thousands of people, a lack of skills and weak institutions are still major problems.

In addition, Johnson (2001) states that local capacity has eroded possibly due to a lengthy application of top-down development. He also raises the concern that poverty in rural areas may debilitate the ability of local people to participate in decentralization. The low education level of rural residents may hamper their ability to understand government policies. The costs of travel and absence from work hours to engage in local politics may discourage the poor from participating. If the poor do not participate in decision making, they will probably not benefit from decentralization.

Although some capacity exists, Bebbington (1999) argues that the likelihood that it can achieve good performance depends on the capacity of other actors and social structures that determine relationship patterns among the actors. Therefore, one should not assume that good capacity would always result in good performance. The possibility of success in tackling rural problems depends not only on the capacity of each rural institution as a stand-alone group, but also on their ability to work together in a synergetic way. For example, Sutiyo and Maharjan (2012a), in their study in some rural areas in Indonesia, find that although local capacity existed, some cultural factors hampered its utilization to execute decentralization. Village head, culturally the highest patron in Indonesian rural areas, are still too dominant, and hinder other institutions from performing their tasks.

2.4 Conclusion

It is always important that political, administrative and fiscal decentralization becomes a holistic design in the pattern of relationships between central and local governments. Political decentralization should ensure the improvement of community participation in politics and development activities, and discretion to manage domestic affairs based on local initiatives. Fiscal decentralization should ensure the sufficiency of grants transferred to local governments, the capacity to earn local revenue and the discretion to spend the budget based on local preferences. Administrative decentralization should be followed with a clear distribution of tasks, coordination among government level, and supported with sufficient local institutional capacity.

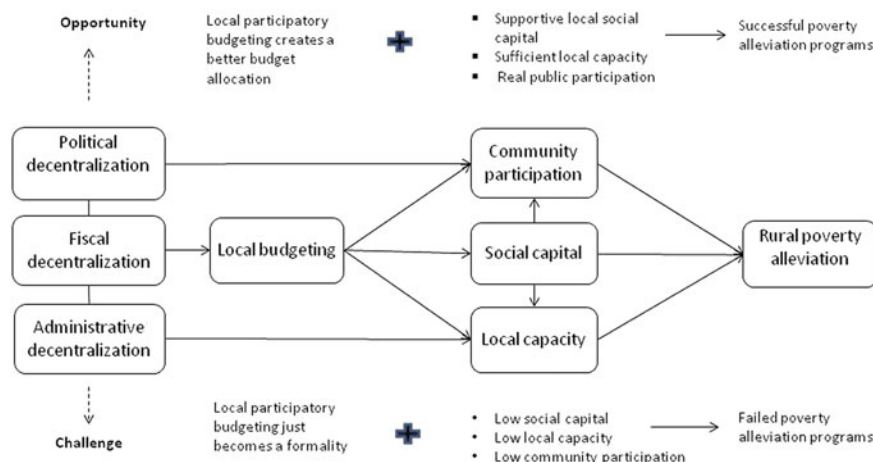


Fig. 2.1 Conceptual framework between decentralization and rural development

The practices of decentralization in many countries have shown mixed results. The cases in some countries have previously demonstrated that decentralization is a double-edged sword for rural development. It has several possibilities for creating successful development, and at the same time, each possibility risks hampering the development programs (Fig. 2.1). Conceptually, it is argued here that only if the local budget is spent to address the needs of rural residents, social capital is strong, the rural poor actively participate in the decision making process, and local institutions have enough capacity to execute the plans, then decentralization will result in successful rural development. On the other hand, if local budgeting becomes just a formality, social capital does not exist, the rural poor cannot participate in the decision making process and local institutions do not have enough capacity to execute their plans, then the decentralization will fail. It is recommended that the application of a decentralized system should be followed by the political commitment of local authorities to seek and prioritize community input, institutional arrangement that promotes people's participation in decision making, procedures guaranteeing the rights of marginal groups in the local political process, the empowerment of rural residents and capacity development for local institutions to better execute the plans.

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