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**DECENTRALIZATION IN GOVERNANCE**

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## Introduction

Local self-government has a long and venerable tradition in many countries; while, in some it is a young and sensitive plant, and, in others, it really has not yet been seriously tried. Concern about the strengthening of local government is not, however, a new phenomenon.

There have been major changes in the key concepts of management for development with the word-wide movement from highly centralized planning to more sustainable, participatory and democratic procedures. It is being increasingly realized that central governments should not interfere in the administration of local government and the local government must have the financial resources to run their programs and to hire their own, qualified personnel and remunerate them adequately for work.

In the case of those countries making the transition to a market economy, addressing issues about decentralization, the appropriate role of local governments, and new approaches to governance is central to the reform process. Local governance in this situation requires the acquisition, by both officials and administrators, of new skills and management systems. Moreover, as those countries achieve economic stability, citizens will certainly try to influence governmental institutions to cater to their own increasingly diversified needs - thus placing even more locally focused demands on systems. Consequently, decentralization, which moves decision-making power closer to communities, is a logical reform choice for systems engaged in the transitions. For citizens in many countries, the demand for decentralization is acute, but the struggle to achieve it is much more complex and far from won.

In the process of decentralization - that is to say, the redefinition of structures, procedures and practices of governance to be closer to the citizenry - the importance of a general sensitization of the public and a heightened awareness of costs and benefits, especially for direct stakeholders, both at the central and local levels, has to be emphasized. One must underscore the necessity to understand the process of decentralization from such a perspective, instead of seeing it in the oversimplistic, and ultimately inaccurate, terms of a movement of power from the central to the local government. The reality is that government capacity is not a simple zero sum game. In fact, experience shows that strengthening local government inevitably produces enhanced capacity at the center as well.

Today, throughout the world there is a broad-based movement towards greater decentralization. At the same time however, there is still real debate about whether decentralized governance can be an effective means of achieving the critical objectives of sustainable human development; improved and more equitable public access to services and employment; increased popular participation and enhanced government responsiveness. Consequently, there is an increasingly urgent need to review the structure and processes of local governance in light of the growing recognition that good local governance is a sine qua non for improved national governance.

It was within this context, and with these as some of the key issues, that the United Nations organized a Global Forum on Innovative Policies and Practices in Local Governance in Göteborg, Sweden, on the 23-27 September 1996.

The objectives of the Forum were to

- identify emerging issues and innovative experiences in decentralized governance achieved in specific countries and cases,

- analyze the relevance and application of these cases and to examine result-oriented strategies and priorities of management reform and capacity development with a view to broadening the options open to each country when designing institutional strengthening policies and organizational innovations at subnational levels.
- develop broad guidelines and strategies on how such policy instruments, programs and cooperation modalities can best be designed and implanted to enhance improvement in service delivery to the public.

The following major issues were addressed

- The Policy Framework for decentralization and the strengthening of the institutions of local governance - involving strategies, concepts and processes; roles, structures and functions of national and local governments, markets and civil society, regulatory policies and framework of inter-governmental cooperation and partnerships.
- Mobilization of Civil Society - entailing various approaches and measures to encourage local participation in public policy making, including options to improve accountability and transparency in local governance, as well as innovations in working with private sector agencies.
- Public Service Provision - entailing how decentralization and enhanced local government capacity provides new options for service delivery.
- Strengthened Management of Local Government - including innovations in management systems and practices, capacity building, systems for implementing change and measuring performance and results.
- Improved Fiscal Management - involving systems for efficient, accountable and transparent inter-governmental financial transfer and creative mechanisms to mobilize, collect and manage local financial resources.

The Forum was organized by the United Nations and Swedish International Services. In the Executive Committee for the Forum the United Nations was represented by Mr. Guido Bertucci, DDSMS, Ms Itoko Suzuki, DDSMS and Mr. Thord Palmlund, UNDP. Swedish International Services was represented by Mr. Arne Svensson, President, Professional Management AB. The Global Forum highlighted innovations in local governance from all over the world. Because of the difficulties of initiating and sustaining significant innovations, it is all the more important to find out how these innovations were brought about and what is the potential for their replication and sustainability. We hope that by publicizing these experiences, we shall provide incentives for more innovations at the local level. This is most assuredly a *sine qua non* for improved national governance.

The assignment to write a monograph has been undertaken by professor Allan Rosenbaum, Director of the Institute for Public Management and Community Service, Florida International University (and a participant in the Forum) and Mr. Arne Svensson, Chairperson of the Global Forum.

## **Decentralization and Management Systems**

The process of reform in public sector management has highlighted the fundamental dilemma of upholding the government's role as a promoter of change as well as stability and consensus. Creating conditions in the public sector - which promote a culture of continuous improvement, foster innovation and capitalize on individual and team

performance - is in itself an ongoing challenge for governments. However, governments are also required to constantly maintain a balance between under and over stimulating change and innovation. The current change from monopolized to pluralistic provision - involving private sector and non-profit agents - must be properly managed to ensure effectiveness and adequate feedback into the policy process. Opportunities to increase flexibility and efficiency must always be weighed against the risks involved in losing political control and responsibility for public sector activities, which must be based on societal consensus.

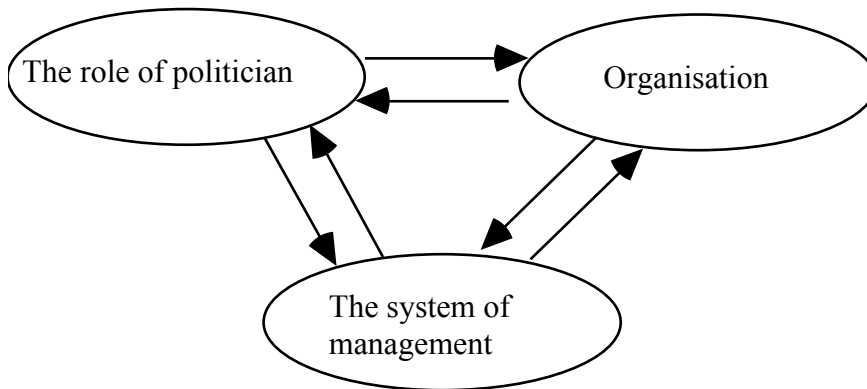
Lack of confidence is a problem in too over-centralized systems. Local government is therefore a key element in the political systems of liberal democracies. It is seen as an appropriate level for effective government intervention to meet welfare needs and also to stimulate economic efficiency. Local government is central to the establishment and maintenance of a democratic process.

The changing relations between central and other levels of government will be an increasingly important consideration in developing and transitional countries. As a country's income grows, the amount of social services increases. Above all, this means investing in education, health, nutrition, family planning and poverty alleviation, building social, physical, administrative, regulatory and legal infrastructures of better quality, mobilizing the resources to finance public expenditure and providing a stable macroeconomic foundation. I believe it's important to define these issues as investments for the future in a more positive and prospective way.

There are many ways to finance, steer, regulate, structure, organize, manage and operate public sector activities. There is no single reform sequence, which will fit all economies. Cultural background, resources, traditions and other conditions all have to be taken into account. The system has to suit the country and the situation.

The Copenhagen Declaration and its accompanying Program of Action provide a context and a challenging agenda for public administrators as they seek to play a key role in the implementation of social development objectives. A number of critical issues remain to be examined as regards how to achieve the broad goals agreed by the Summit. One of them - and I believe the most important one - is how change can be managed in a way that empowers people to peak performance. Promoting reform requires shared visions and the active participation of a range of actors involved in implementing changes; including politicians, senior officials, business and labor representatives, the private sector and the non-profit sector involved in public service delivery, as well as the general public.

The general development tendency which has most affected the organization of work in recent decades is decentralization. Management by results as a management philosophy is a natural consequence of the decentralization of an organization, which leads to a clear focus on results. An increased orientation towards the market, performance-linked incentives and new management information systems has meant that operations have been adapted more rapidly to changing needs. Performance management strategies involve a shift from traditional procedural approaches to a more results-oriented culture where priority is given to outcomes of public policies. The aim is to move from a mode of operation based on ex ante control of resources, extensive regulation to prevent abuse and ex post inspection to ensure compliance with legal standards, to continuously monitored performance, management with accountability for results and all dimensions of performance (economy, efficiency, effectiveness, service quality, financial performance).



Multiple interests must be brought into a participatory policy-making process, without jeopardizing the capacity to govern. A market economy is a sensitive plant requiring a firm, stable democratic soil in order to thrive. A well-established local democracy is a prerequisite for building a stable society. Local self-government creates a link between the state and civil society, which can provide the basis for the effective use of resources.

These efforts need to be woven into a framework where the central capacity to govern is enhanced, especially in the face of globalization; where an appropriate balance is struck between central direction and local discretion; where the interests of many policy actors are considered; and, where democratic accountability is protected. Traditional values of neutrality, integrity, and equity must also be married with today's demands for value-for-money and quality of service.

Therefore, the challenge facing local governments is to re-establish political strength by being more explicit when defining goals, and more consequential in following-up results. Using market mechanisms should encourage quality improvement and cost-effectiveness. Only by applying both these strategies can local governments solve the dilemma of consensus versus change.

## Organization of Local Government

Today you may find three different principles for Organization of Local Government. It is fairly common not to use only one of these principles, but to find new combinations and solutions tailored to the needs in each city / authority. The traditional Organization is based on the principal that every field of operations should have its own Committee and management. Now many Local Authorities have an Organization based on territory principles (neighborhood committees). Purchaser - provider models have also been introduced during the last decade. There are many combinations between these three principal models and my experience is that there is no "best practice". It is important to find an organization tailored to the situation in each Local Government.

The clarification of roles, which has been striven for in many municipalities, has for example involved separating the tasks of citizens' representative, employer (producer representative), and owner (of land, premises, equipment etc.). Some key components of this perspective are shown in the following diagram:

A. To represent citizens as	
- financier	* Effective use of available resources
- consumer	* Guaranteed access to community services
	* Quality assurance
	* Safeguard ethical considerations
	* Efficient tendering procedures
B. Producer representative, activities carried out under municipal control	
	* Ability to compete (to be the best alternative)
	* Commercial approach
C. Owner	
	* Good employers
	* Yield on invested capital

## Market mechanisms

In many countries, the responsibility and decision-making powers of local authorities have been decentralized and shifted to lower levels in the organization. This means that institutions such as day-care centers, homes for the elderly and schools now have their own budgets, and are therefore able to determine how much money they wish to allocate to their various activities. Changes of this kind have regularly led to the improved utilization of resources. The division of major authorities into small, service units is also a prerequisite for the introduction of market mechanisms. Further incentives to cost-effectiveness have been provided by utilizing the principle of allowing funds to "go together with" the child/patient/pupil and by competitive tendering procedures. All reliable information indicates that the introduction of market mechanisms into the public sector results in productivity gains (Svensson, 1994). The increased orientation towards market mechanisms within the public sector - by means of performance-linked incentives, contracting out and the introduction of new management information systems - has most certainly been successful in fulfilling demands in respect of increased cost-effectiveness. On the other hand, however, it is difficult to evaluate changes in standards of quality. It is often claimed that contractors are able to cut costs by lowering the quality of the services they provide, without the purchaser being able to detect or correct the deterioration in quality. It should be emphasized, however, that contractors rarely do this.

It is not sufficient merely to refer to the introduction of market mechanisms into the public sector in order to understand why changes that increase efficiency, such as privatization and purchasing procedures, can result in management problems. It is not the market mechanisms that create the problems. On the contrary, market mechanisms, such as competition, personnel incentives, contracts etc., can function as extremely powerful, control devices. If anything, the problems experienced are related to the fact that market mechanisms expose the inadequacies of the traditional, monopolized public sector. These problems were recognized and analyzed at the UN Conference on Privatization (UN, 1994). One and the same organization, and often the same people, acted as purchaser, contractor and evaluator. Any organization that sets the requirements for its own work, then executes the work and, finally, evaluates the results has a natural tendency towards inefficiency - both in respect of the utilization of resources, and the clear definition of goals and results. There has also been a strong tendency to treat the public sector as an instrument of labour-market policy rather than an organization responsible for carrying out essential services for

the community. Taken together, this has severely hampered the public sector's ability to clearly define its goals, follow-up its results, motivate its employees and improve its methods. The need for clear specification of aims, objectives and service standards is therefore a key element of public sector reform work, both because of its own merits and in order to facilitate agencification, contracting out, concessioning and privatization.

## **Customer choice**

Customer choice generally means that the individual citizen, given the entitlement by the municipality to a subsidized service, is able to make use of this subsidy by means of a service cheque/money grant or the equivalent, which is valid as a means of payment when purchasing the service.

This right is based on an individual decision for each person, or a general decision covering all individuals with a particular need. The person or organization providing the service is to be authorized by the municipality to cash the cheque. The individual citizen can also be given the opportunity of choosing more or less freely without this being linked to a system of cheques or money grants.

There are many advantages with systems using money grants. The individual has a clear freedom of choice. Producers are obliged to compete for customers, which increases quality.

## **Four phases in management reforms**

The need of local governments is to achieve a balance between various competing requirements, such as: (a) approaches to management which emphasize efficiency, devolution and decentralization, (b) the development of equitable and sustainable governance institutions, (c) institutionalizing strategic and cooperative leadership, (d) maximizing participation by stakeholders, and (e) insuring transparency and accountability. Local governments will inevitably have to address each of these issues. The main question is: What steps can be taken now to improve the quality of local governance. Significant management reforms take time to implement. Moreover, sometimes the ideas behind them are very slow to take root. Today a variety of new management methods, concepts, models and values are being accepted as an integral of the way public administration is conducted.

The question of the ultimate relevance of different management concepts and techniques is however still open to debate. Recent experience at the local level suggests that there are four phases in the process by which public management reforms are carried forward.

The first phase involves addressing the full range of familiar bureaucratic shortcomings: waste, unnecessary activity, overcomplex regulations, overlap and duplication of functions, confused lines of responsibility, slow and overcentralized procedures for decision making, divided authority, unclear performance standards and lack of information about results and costs.

Such reforms focus on matters like the elimination of outdated reporting systems, expensive work being conducted by government when it is clear that external purchasing is cheaper, and of common services being provided free of charge to user departments.

The second phase of reform typically focuses on more general public management modernization. The objective is to shift from procedures-based administration to results-based management style with yearly measured improvement in performance. This requires knowledge of results and costs and better methods of using human and financial resources.

This relied on a "one-best way" management-by-objectives (MbO) philosophy strongly coloured by private sector experience. The main themes of the second phase are:

- strengthening accountable line management
- developing new systems, structures and priorities to decentralize financial management and cost control.

The reform efforts during the 1970s to introduce ZBB (Zero based budgeting) and MbO have proved to be passing trends with little impact. Many such methods are based upon the premise that any large problem can be desegregated into a series of small problems. These can then be dealt with independently within centrally set parameters. Frequently however, structural reorganizations cannot be managed in this top-down way. Significant reform requires extensive consultation and active participation by the organizations affected to identify key problems, devise feasible solutions and mobilize real commitment to the implementation of reform.

The third phase reform involves the changing of culture, attitudes and behavior in government so that continuous improvement becomes a widespread and in-built - feature in the search for better value for money and steady improvement of services. This phase can be summarized in the following way:

- focus operational management responsibilities by clearly defining objectives and tasks
- keep strategic policy and resources decisions at the center but devolve implementation decisions to the units responsible for results; and,
- establish processes for agreeing on performance measures and "contracts" between the center and the units responsible for program results.

The fourth phase of reform is often quite different. This phase aims at large-scale structural reorganizations of public service delivery systems. A macro management process is always required to steer structural changes because they ultimately are beyond the control of individual organizations. Methods of managing reform are therefore required which take account of the pluralism and professionalism of the services in question. The management solutions that have been applied to structural reorganizations tend to focus on Management by Results approaches. They often have followed the pattern of imitating business models and promoting competition. The main elements of such efforts normally are

- decentralization of operational management responsibilities to individual units
- creation of a business management ethos: cost consciousness, management by results, financial accountability within organizations
- competition between providers
- treating the public as citizen customers rather than clients in a purchaser-provider contracting system; and,
- implementing centralized financial control with local management discretion

When moving from rule - driven management towards Management by Results systems (MbR) effective political mobilization of political support is essential. Otherwise the MbR initiatives will be absorbed by the pressure of rule - driven administration and one will witness a slow return to the old system. However it's not possible to make a clear distinction between rule-based systems and those focused on market-oriented strategies. Experience to date suggests that the two often are likely to coexist side-by-side. In countries that have recently emerged from authoritarian regimes, it can be difficult to implement management styles that empower workers at lower levels of the Organization.



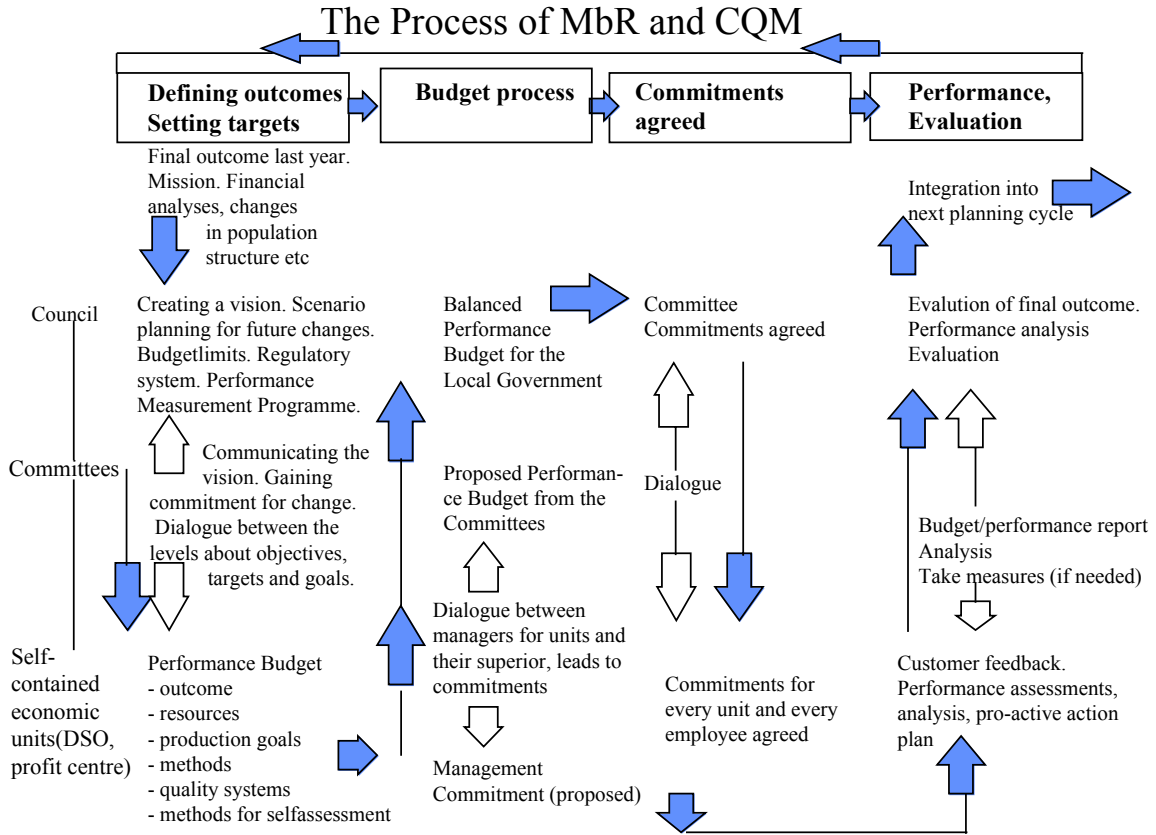
Another defining feature of the new local methods of governance is its responsiveness to stakeholders interests and needs. Thus, the tasks of local governments are to identify and support the development of local partnerships (e.g. with community-based organizations, nongovernmental organizations, and the private sector).

## **Management by Results (MbR) and Commitment Quality Management (CQM)**

In many countries, the implementation of *Management by Results (MbR)* has been successfully applied. MbR and other *performance management* strategies involve a shift from traditional procedural approaches placing emphasis upon the outcomes of public policies. An evaluation of the lesson of Experience in central and local government suggests the following guidelines for implementing such a reform process (Svensson, 1997):

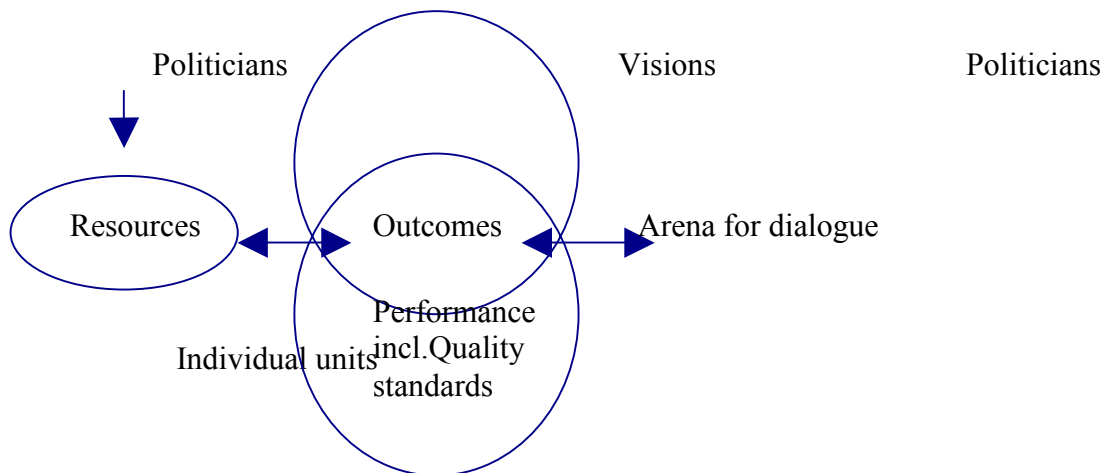
1. The effects for the people concerned (patients, children, pupils) should be focused at all levels of the Organization.
2. Discussions about visions, goals and targets should be integrated into the budgetary process and all decisions should relate resources to demands for results in quantity and quality of services delivered.
3. This process should be designed in such a way as to engage every politician and every employee of the municipality.
4. The government should be organized into “result units” and there should be a commitment (contract) for every result unit signed by the manager and her/his superior, where responsibility for certain results are agreed upon.
5. Required results (which are possible to follow up and evaluate), must be linked to resource allocation.
6. Outdated and unnecessary regulations should be abolished. Decentralization of authority and employee empowerment are fundamental.
7. Commitment of every employee, to defined results, is critical.
8. Effective monitoring, evaluation, performance incentive systems and accountability must be implemented.
9. Essential prerequisites for MbR are systematic customer/citizen quality feedback systems. Evaluation and accounting systems should be implemented so that the achieved results can be measured against visions, goals and targets.
10. The philosophy of MbR should be carefully implemented among all politicians and all employees through well thought-out introductory programs and appropriate training systems.

Targets which are credible and motivating must be established. The process is summarized below:



The commitments aim to clarify the responsibilities of each party and represent a formal commitment by the parties to what has been agreed. This include a specific type and level of performance in return for specified funding and the specified level of autonomy and related reporting requirements (sanctions and rewards may also be prescribed).

The problems regarding the hierarchical structure of MbO have been solved in MbR by emphasizing dialogue regarding the goals, rather than their breakdown, as illustrated in the following figure:



I have called this model Commitment Quality Management (CQM). This model recognizes the need to balance external demands and limited resources while achieving customer satisfaction and real results. This is the commitment for every municipal committee, manager and employee. The aim is to establish a new managerial culture which blends responsibility, autonomy and accountability. The objective is to give units greater operational autonomy while developing a better steering and strategic capability at central level.

#### CQM highlights

- A. Leadership based on clear specifications of performance (including quality standards) in aims, objectives, goals and targets
- B. Focus on the results achieved for the citizens and their perception of them
- C. Performance Commitments based on participation from every employee in the process
- D. Measurement and evaluation of performance, including service standard quality; and
- E. A program for continuous improvement of quality and efficiency.

Efforts to reform local government in this direction have been very successful in the 1990s: and could serve as model for the reform of the management of local government. This would involve:

- utilization of the MbR negotiating process as a step towards CQM
- utilizing MbR systems in the form of interactive co-planning with citizens in technical and social areas.
- integrating MbR systems with systematic customer/citizen quality feedback systems.
- distinguishing between - but linking together - programming, financing and implementation
- ensuring interaction between results orientation, regulation and competition in local government services.
- integration of MbR systems and organizational outsourcing with the aim of stimulating institutional competition.

This approach builds upon the growing trend towards quality control of public service production through citizen and customer participation. Above all, it includes systematic and decentralized citizen quality feedback systems and in some cases explicit service obligations by the administration towards citizens within the framework of a citizens' charter, focused upon issues such as timeliness, accessibility and continuity of services.

This leads to a strategic dilemma in the course of the internal modernization process: usually the central units prove to be an important, if not indispensable, motor initiating the reform process: once a certain stage of development has been reached, however, the headquarters often constitute a major barrier for the further course of the modernization process.

Moreover, by abandoning administration in favor of results-oriented steering one to creates organizational space for autonomous action by the units at local level. Such a steering logic can, however, lead to the centrifugal segmentation of the administrative system unless monitoring skills, to accompany the process of reform, are developed as a medium for collective observation, learning and self-steering.

Internal modernization is not merely a task for management, but is inherently a function of the work and action of all the employees participating in the value added process. Thus the

development of working structures which are conducive to learning and favor task integration, together with corresponding personnel development systems, is essential.

## **Conclusion**

Managing local governments is beset with contradictions in policy implementation; plagued by limited capacity and inhibited by significant financial constraints. Every country has to chart a course suited for its circumstances and realities. Central government commitment to a decentralization policy is essential. But even more important is both recognition of and the existence of policies that reflect the reality that local governments are the foci of development, are needed for effective governance and are central to the promotion of Participatory democracy. This is only possible, if local government is independent, in relation to the state both financially and functionally, and is managed efficiently, effectively and productively.

Public sector services are required to achieve a balance between the interests of customers, the professional ambitions of personnel, and the interests of the general public / the tax-payers. A balance of this kind requires that the customer be able to influence and/or choose the service provider, that personnel be able to choose the image of their respective activities, and that the political leadership's goals have an impact on activities. Experience gained from the implementation of CQM to date indicates that far-reaching decentralization combined with an active follow-up of goals to establish how they are applied to working methods, can create the basis for a balance of this kind.