

ELUSIVE NEXUS: BASIC NEEDS AND FISCAL DECENTRALIZATION

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Summary

Decentralization policies are pursued by countries for a variety of reasons. As marketization of the state continues, many advocates of decentralization see it as a means towards greater efficiency of service delivery.

Others view decentralization as encouraging local participation and involvement in political decisionmaking and resource distribution. Thereby, the latter group argues that basic needs such as education and health care are received by those in greatest need through fiscal decentralization in the form of own-source revenue or intergovernmental transfers of funds.

This discussion expands the decentralization debate through empirical analysis using the Human Development Index (HDI) as a measure of basic needs. Then through a series of regression models, the Human Development Index is regressed on fiscal decentralization measures and finds that fiscal decentralization is helpful in attaining basic needs or healthier and better educated populations. More specifically, fiscal decentralization in the manner of own-source revenue has the strongest positive effect on basic needs. These empirical results are encouraging to those who view decentralization as a way to improve the lives of citizens in many developing nations.

1. Introduction

Decentralization policies have been pursued by countries both for political and developmental reasons. Increasing local participation in the development activities of less developed countries (LDCs) is thus emphasized, both by advocates of a basic needs perspective and by advocates of government decentralization, as a means to economic (allocative) efficiency. This article contributes to the discussion of both basic needs programs and decentralization efforts, by providing empirical evidence that supports the notion that fiscal decentralization contributes to the attainment of basic needs objectives. The results from regressions of the Human Development Index (HDI) on measures of fiscal decentralization suggest that fiscal decentralization is helpful for attaining better educated and healthier populations.

2. A Brief History

Decentralization policies have been pursued by countries both for political and developmental reasons. The first wave of decentralization in the late 1950s and early 1960s was due, in part, to the desire by newly independent states to replace their colonial structures of local governments with indigenous ones. Politically, decentralization was seen as a means for the state to increase popular support, and also a means by which individual politicians and ministers could establish themselves and their ministries. The second wave of decentralization, from the mid-1970s into the 1980s, was based more on the premise that decentralized planning and participation are more effective and efficient ways to implement development (especially rural) programs that focus on meeting basic needs, such as for education and health programs. The development rationale rested on the assumption that devolution of decision making, from the central to regional and local governments, improves coordination among local program implementers, and that development projects are more sustainable in a decentralized structure because they induce increased local contributions to development programs, whether through local taxes or “self-help” projects. In this view, local participation is required to make devolution and basic needs service delivery work.

The 1990s phenomenon of transitional economies in the former Soviet Union and Eastern Europe has sparked a third wave of interest in the promises and pitfalls of administrative and fiscal decentralization. Many of the transitional states pursue decentralization for both political and economic reasons. The decentralization rationale in current vogue is based on notions of economic (allocative) efficiency criteria. Normatively, public services should be delivered at the most local level possible, so that services can be tailored to the needs and preferences of the local population. The

implicit assumption is that local populations will be able to exercise choice in demanding and defining local service requirements. Another implicit assumption is that the people “know” their preferences and priorities better than regional or national governing bodies, which are better suited to issues of national scope, such as military and trade affairs. This model also argues for service delivery based on the benefits principle of public finance: that as many services as possible should be funded through user fees, and that basic community services such as police and fire protection (which have significant externalities) can be funded through local taxes. Services mandated for delivery by the central and regional governments are properly funded through inter-governmental transfers (grants).

In sum, increasing local participation in the development activities of LDCs has been emphasized, both by advocates of a basic needs approach to development and by advocates of government decentralization, as a means to economic (allocative) efficiency and political legitimacy. Including greater numbers of people in development decisions is seen as both a means to distribute primary development benefits more widely, and as one of the objectives by which development is measured. Yet the discussion of increased participation continues with little benefit of empirical evidence to support or refute the claims that increased local participation will lead to increased development.

While the third wave prescription is ideologically driven, based on a preference for a market-oriented state, the question whether a decentralized government matters for service delivery outcomes lingers. Is there evidence that decentralized governments have higher achievements in such basic areas of human development as primary healthcare and basic literacy? Put differently, does higher achievement of meeting basic needs for human development depend on a decentralized government delivery structure?

The results from regressions of the Human Development Index (HDI) on measures of fiscal decentralization suggest that fiscal decentralization is helpful for attaining better educated and healthier populations. Sections 2 and 3 discuss the role of participation in the basic needs and decentralization theories. The model and data are presented in Section 4, followed by a discussion in Sections 5 and 6 of the regression results, and some conclusions concerning the ability of developing countries to meet basic needs objectives in conjunction with fiscal decentralization.

3. Participation in Development

3.1 The Theories of Basic Needs and Decentralization

Basic needs and decentralization theories find a nexus in the utility of popular participation in the development process. Participation is characterized by some degree of determination on the part of the person participating, and encompasses elements of both the basic needs and decentralization concepts.

3.2 Basic Needs

The fundamental objective of a basic human needs approach to development is to insure that each human being has the opportunity to live a full life, by securing access to a minimum level of consumption of certain basic goods and services. Increased participation in development decisions is both an element of basic needs and a means of achieving other basic human needs objectives, including better educated and healthier populations.

Streeten argues that the achievement of basic needs goals combines emphases on the supply and demand of basic needs goods with an emphasis on the appropriate institutional arrangements for access and delivery: namely, restructuring and decentralizing functions to fit the functional requirements of the basic needs programs. Administrative procedures designed to increase staff participation in decision-making may increase staff commitment and the responsiveness of the program to local needs. Opportunities for local participation in the decisions can also lead to a greater commitment on the part of the local community to the project. Rondinelli notes that successful implementation of basic needs programs requires continuous redesign, based partly on the response of local participants. Emmerij concludes that the changes advocated by a theory of basic needs will only become effective once regional and local level participation in the decision-making process has been introduced.

Likewise, the 1991 Human Development Report notes that "Restructuring for human development is likely only with a workable political strategy. If resources are poorly distributed, the cause generally is political. Protected interests and power structures...can cause maldistribution [of resources]." Although there is no "primer" for political and economic restructuring, "experience suggests some general approaches that can foster a gradual, reformist programme." One component of the strategy should be to empower weaker groups in society. "The best way to achieve this is to decentralize decision making and to allow people full participation in planning and implementing programmes that affect their lives" (UNDP 1991:4).

Financing basic human services for the poor is a critical problem. Services such as education and health care have high recurrent costs relative to the capital investment; building a school house may prove financially easier than maintaining teachers and supplies in the school. The situation is compounded by the fact that the intended beneficiaries, the poor, have little surplus cash income to contribute toward school or clinic fees. Furthermore, such levies may contradict the goals of universal access.

The recurrent costs must be met. Unfortunately, as education and health systems become both more extensive and intensive, central governments may become overburdened with the fiscal liabilities for recurrent costs. Although central governments in developing countries can be expected to continue to supply some of the financing of recurrent costs for these programs, continued expansion and development of these services at local levels implies an increasing role for sub-national government units, in the financial support for the recurrent costs of basic education and health programs.

The basic needs approach to development suggests that if the local beneficiaries are given a participatory role in the decisions, their attachment and commitment to the

project will be strengthened, and they may be able to tap their pooled resources to fund the recurrent costs of basic services. Thomas analyzed the *harambee* schools model in Kenya and suggests that communities can significantly enhance their welfare, increase their productivity, and improve their access to national resources by organizing self-help projects. Local resources, including labor, land and financial savings, can be supplemented by financial grants from the center to provide adequate resources for local development projects. Picard, although critical and somewhat pessimistic, found evidence of increased participation through decentralization in Tanzania. Evidence suggests that when schools with decentralized financing and planning are supervised by local committees, they are more efficient than those that are part of a centralized system. Community financing of local health care, such as in Senegal, has provided examples where locally raised funds can equal 80% of the budgetary appropriations for the Health Ministry. Locally raised and administered revenues can improve local participation rates and direct funds to local priorities. On the other hand, care must be taken in designing community self-financing; some experiences of self-help schemes have created second-class institutions and perpetuated inequalities, as in Kenya's *harambee* schools.

3.3 Decentralization

Decentralization to regional and local levels is a political phenomenon involving both administration and government. The concept of decentralization has a long history, and a brief literature search on the term will reveal more than 500 articles on the subject, stretching back to the early 1960s and even a few in the 1920s. James Fesler identified the foundations for the debate that has ensued over this period. He noted that decentralization is often ideologically (but falsely) equated with democracy, and that it has benefits and costs just as centralization does. He notes the linguistic problem of centralization and decentralization as antonyms, with a term missing for a balanced approach that has elements of both. Many subsequent writers have noted that decentralization in practice is actually dynamic, constantly evolving. It is impossible to “arrive” at a decentralized system, leaving evaluation to whether a governance system is more or less decentralized than it was before, or relative to another system of governance. Wallace Oates recently observed that the devolution trend of the last half of the twentieth century is meshed with increasing complexity and specialization in the vertical structure of the public sector. The decentralization debate is expected to continue, and it will be useful to gain some empirical evidence to inform the discussions ahead.

Decentralization can take many forms. Deconcentration involves allocating authority to field offices within the structure of a central ministry. Delegation transfers management responsibility for specific functions to organizations, composed of a mixture of locally elected and centrally appointed representatives, which are normally outside the bureaucratic structure and only indirectly controlled by the central authority. Privatization involves the divestment by government of some responsibility, whereby the function is assumed by a voluntary or private enterprise organization.

De Valk is skeptical of the local government role in participatory planning and development, particularly with respect to rural areas and the poor. He notes, as do others, that inducing and organizing local participation through local government

structures can be perverted in several ways, to promote the interests of central government and local elites instead of the poor and disenfranchised. When decentralization is used by central governments mainly for internal political objectives, local structures are reduced to advisory boards which hold hearings, instead of self-governing bodies which make and implement locally focussed development decisions. Real decision making powers at the local level, on the other hand, can be “hijacked” by local interest groups or individuals, who channel resources to benefit themselves rather than the larger community. Finally, local participation can be thwarted when ministries try to implement their own plans, by giving local organizations controversial instructions that defy popular will.

Dillinger and Fay note that the experience with decentralization over the last 15 years provides some important lessons. The most important is that, however the decentralized system is shaped, it should be based on a “coherent, explicit, and stable set of rules” that encompasses the division of national and regional political power, the functions and resources assigned to sub-national governments, and electoral rules and other political institutions that relate constituencies to politicians. The classical fiscal federalism model, of multiple tiers of government delivering various types of service bundles, has its limitations. Ultimately, the chosen system is bound to be complex, and characterized by multiple sets of principal-agent relationships, that raise the possibility of obscuring accountability relationships between the government and the governed.

Nevertheless, decentralization advocates argue that localized service delivery, and the involvement of beneficiaries in planning and decision-making at the local level, can be used to gain larger shares of public services for the poorest groups in society. Citizens can also organize outside of the government structure to pursue local development priorities and the achievement of basic needs. In the broad sense, then, participation is manifest in various types of public and private sector cooperation, including consultations, agreements, and associations at the national, regional or local levels.

Providing sub-national governments with some degree of financial independence from the central government is one of the most critical elements of a devolution policy. Without economic independence, either through independent taxing authority capable of significant revenues or no-strings block grants from the central government's tax revenues, local autonomy will be undermined, because local authorities will not be accountable to their constituents for budgetary decisions, but to the central authorities. Local participation is seen as a means to ensure the efficient provision and more equitable distribution of goods and services. If people are involved in decision making, policies and projects tend to be more realistic, more pragmatic and more sustainable. If people have a sense of ownership, they are more willing to volunteer a contribution.

3.4 The Nexus

Program participation thus forms the nexus between basic needs and decentralization theories. Beyond its value in relieving central ministries of simple and routine tasks that can be managed at the sub-national level, decentralization can improve basic needs performance by increasing the planners' awareness of local conditions through increased contact between government officials and local citizens. Although projects may

continue to need central guidance and support, their implementation can be effected locally, in a manner responsive to local participation.

There is no guarantee that decentralization of fiscal resources and decision making authority will not result in scarce resources being used to meet the desires of local elites. This phenomenon is common enough in developed nations. (Consider the Community Development Block Grant program in the United States, where grant funds have shifted from subsidizing public housing for the poor under central administration, to subsidizing private firms under state administration.) But at a minimum, argue decentralization theorists, where once a handful of persons in the capital city decided the resource allocation for education programs in every municipality, in a decentralized administration, local persons who must live with the consequences of the decisions would help decide the budgetary allocation. Even if the resources allocated by persons at the local level stem from inter-governmental grants from the center, some responsiveness to local conditions should be concomitant with the transfer.

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Biographical Sketches

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