Administrative Decentralization:
A Review of Staffing Practices during Decentralization in Eight Countries

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Note to Reader

This paper has been developed from a review of documentation available on the Internet and resources internal to the World Bank, primarily conducted during 2002 and the first quarter of 2003. In addition, some updates have been made to the Pakistan case study, to reflect current events in that country’s decentralization process.

The paper also benefited from comments provided by Dana Weist, Ranjana Mukherjee and others during a World Bank training workshop held on June 9, 2004.

Any comments on this draft should be sent to Anne Evans (anne@evansconsulting.ca) or Nick Manning (nmanning@worldbank.org).
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Introduction
Many countries, particularly those that have recently adopted democratic political structures or are in the process of doing so, are pursuing policies of decentralization. The reasons driving decentralization are country-specific. Among the cases examined in this paper, the reasons include: the replacement of discredited autocratic central regimes by elected governments operating under new constitutions; pressure from regional or ethnic groups for more control and political participation; the spread of multi-party political systems and the consequent demand for more local input into decision-making; the need to improve service delivery to large populations as well as the recognition of the limitations of central administration in providing local services. In some cases, decentralization has followed several years of civil war, and has offered the opportunity for different factions to participate in local government. In addition, many of the transition economies of the former socialist countries have embraced political decentralization as part of the process of dismantling the old central-planning structures. And just as the reasons for decentralization have varied, so too have the approaches to decentralization.

Decentralization is a complex, multi-dimensional issue that affects all facets of government. It involves not just the political institutions, but also administrative structures and service delivery arrangements and, importantly, some degree of local fiscal autonomy. Successful decentralization depends on how well reforms along each of these dimensions interact to support improved local governance.

An extensive body of knowledge already exists, particularly in the areas of political and fiscal decentralization. And as countries are working through the decentralization process, much of the planning has centered on these two themes. There has been much less attention paid to administrative decentralization, and in particular, the treatment of staff that are affected by decentralization. This likely reflects the view that staffing is a secondary issue: the main challenge has been seen as determining the "right" political and fiscal model.

This paper focuses specifically on the issue of staffing and, more broadly, managerial control within the context of decentralization. The World Bank’s World Development Report 2004 (World Bank 2003) presents a conceptual framework for analyzing public service delivery issues. The framework argues that there are two routes of accountability: the long route involves service providers (whether direct delivery by government or contracted agents) being accountable to government policy makers and thus to citizens; the short route involves the ‘clients’ directly influencing providers through exercising choice or other means of active participation. Figure 1 applies this service delivery framework within the context of decentralization. Managerial control describes the set of activities or mechanisms by which policy makers meet their accountability obligations. Administrative decentralization involves delegating this managerial control to the local level of government.

The main purpose of this paper is to propose an analytical framework or tool that could be used to unpack the managerial control function, understand the different components, and identify areas where specific action may be warranted. This framework has been developed from a desk review of eight case studies: Benin, India, Indonesia, Mexico, Pakistan, the Philippines, Poland and Uganda. The cases have been chosen to provide a broad range of examples, both geographically and in terms of the extent to which staff have been affected by decentralization. They also cover
situations where decentralization has been underway for some time, where decentralization is currently in process or where it is still in the planning stages.

Figure 1: Service Delivery and Administrative Decentralization

Drawing on both the framework and the experience of the eight case studies, the paper goes on to suggest some lessons for developing an action plan. It also identifies some specific practices from the cases that may have applicability in other contexts. However, it is recognized that the framework needs further testing in a wider range of circumstances before extensive conclusions can be drawn with full confidence. While the framework has already been used as a diagnostic tool in other research\(^1\) with encouraging results, the complexities and variations of the decentralization process call for more extensive testing. A list of possible questions that could be used in a broader research effort is included in Annex 1. Moreover, there are a number of specific issues that require more focused research, and therefore are not addressed in this paper, such as unions, contract workers, and pensions.

Finally, the paper makes some comments about how staffing interacts with the political and fiscal dimensions of decentralization, and will make the case that staffing needs to be treated as an integral part of the decentralization ‘model.’

A Framework for Analyzing Managerial Control

The starting point for developing a framework for analyzing managerial control is to draw a distinction between the ‘ends’ or objectives of administrative decentralization, and the means by which they are achieved.\(^2\) (‘Ends’ in this context refers to the ability of local governments to manage their staffing and financial resources, rather than the ultimate goals of service delivery or

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1 The East Asia study is being conducted by the World Bank. The Pakistan study has been published as (Charlton et al, 2004)
2 This framework presupposes that local government knows what functions – or expenditure assignments – it is responsible for, which is an important aspect of both fiscal and political decentralization.
poverty reduction.) These ‘ends’ or objectives of administrative decentralization can be summarized as:

- First, local government must be able to hold its staff to account, in terms of its performance. This means that local government must be able to supervise and direct the work that is done. It also means that local government should review performance, reward good performance through promotion, pay increases or other incentives, and discipline poor performance, including the authority to fire. It does not necessarily mean that local government must also hire staff, especially if mechanisms are in place to ensure that hiring decisions are based on merit, but it would be beneficial. And in principle, if these accountability mechanisms are in place, staff could still be formally employed by the center, although practically it will be very challenging to do so without some blurring of the lines of accountability.

- Second, local government needs to have the ability to allocate staff where the need is greatest. This means being able to determine and or influence the numbers of staff employed at particular facilities, or performing certain functions, through establishment controls, and possibly the use of financial or other incentives.

- Third, local government needs to be able to manage its financial resources. Since the wage bill typically represents a significant portion of the overall budget, control over wage rates and/or numbers of staff is essential.

- Fourth, local government should have the means to attract and retain skilled staff. The most direct way to do this is through financial or other incentives. It may also be possible to retain qualified staff by such means as establishing a ‘free’ or open public sector labor market across local governments, thus preserving mobility and career advancement opportunities.

The means to achieve these objectives is to shift managerial control from higher levels of government to subnational government. Table 1 identifies six key dimensions of managerial control and shows how changes in each of these dimensions contribute towards achieving these objectives. Box 1 provides additional detail on each of the specific mechanisms within each dimension. Later, the case study countries will be assessed against this framework.
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Box 1: Dimensions of Managerial Control Explained

Budget Transparency
Processing the payroll: Staff working at the local level receive their pay directly from the local government, regardless of where the funding comes from. While it may not affect the local government’s ability to manage the salary budget if funded from elsewhere and explicitly tied to existing salaries, it does make local expenditures more transparent, and thus arguably creates a stronger accountability link between the employee and the local government. While the impact on managerial control may be only symbolic, it can be a relatively easy first step.

Budget & Establishment Control
Controlling overall staff numbers: Authority to determine the total number of staff has a direct effect on the wage bill, which is generally the largest component of the budget. However, this only matters if local government’s accountability for the size of the wage bill rests on the hard constraints provided by an unconditional grant or own-source revenues. This accountability is undermined by any transfer mechanisms that provide for automatic reimbursement of wage bill costs.
Controlling staff numbers in local offices & facilities: Authority to adjust the number of staff in one facility versus another. This gives local government control over resource allocation in order to address differential local needs.
Authority to dismiss surplus staff: Even if local government can determine the overall number of staff, its flexibility will be limited if it has no authority to dismiss staff that it cannot afford, or if its affective authority is curtailed by high severance obligations or other restrictive provisions. In some countries, limits on the ability to dismiss staff are even written into the constitution.

Recruitment
Recognition as the formal employer: Recognizing local government as the formal employer can help to solidify the accountability relationship between employer and employee, particularly in cases where employees have been transferred from senior levels of government, and loyalties may be divided.
Authority to hire: Regardless of who the formal employer is, local government should control the hiring process, so that it can ensure that qualified staff are recruited. Without the right staff, local government will be unlikely to meet service delivery obligations.

Independent merit-based recruitment mechanism (e.g. PSC): PSCs (or equivalent) can be an effective means of recruiting qualified staff, and are particularly important in cases where local government does not have the authority to hire directly. They can also be used to facilitate horizontal mobility when they are set up to service a group of local governments (e.g., all district governments within a province).

Career Management
Transfers within local government: The authority to transfer staff from one facility to another can facilitate resource allocation (see above), as well as give staff access to a broader range of career opportunities. However, it is important to recognize that this mechanism can also be inappropriately used to punish staff. Care in design is needed to balance management obligations and employee rights.
Horizontal mobility: This refers to movement of staff between two different government entities. For senior level staff, particularly those who have been transferred from a senior level of government or who have aspirations to move up to the senior level, it is important to be able to move across governments without loss of seniority. Without this, the ‘best and brightest’ will be very reluctant to work at the local government level. However, for lower level staff, horizontal mobility is generally not an issue, as they usually prefer to work their full career close to their local community.

Promotion: Authority to promote is an important incentive mechanism for motivating staff, and along with authority to hire, for building a qualified civil service.

Performance Management
Directing & supervising activities & tasks: This is a central and critical mechanism for managerial control. If local government is to be accountable for delivery of service, it must be able to direct and supervise the activities of its employees.
Conducting evaluations: Similarly, local government needs to have authority to conduct evaluations of staff. These evaluations should help to clarify what staff are responsible for. However, the effectiveness of evaluations will be limited without the ability to take disciplinary action.

Ability to discipline/fire: The authority to discipline or even fire staff who are not performing their duties is a central means of ensuring accountability. But the effectiveness of this mechanism will depend on the conditions by which the authority can be exercised. In some cases the circumstances for firing incompetent staff are so restricted that it rarely or never happens. To be effective, staff need to know that there are real consequences for poor performance. (Note that firing staff for poor performance is separate from the authority to dismiss surplus staff – see above.)

Pay Policy
Setting local hardship/remote allowance: Authority to set special allowances can be used to attract staff to remote locations. However, this needs to be tempered by the fact that the ability to pay allowances may vary, and those areas with the greatest difficulty attracting staff may have the least ability to pay. Moreover, a standardized pay system may in fact support staff mobility. Additionally, the need for remote allowances is primarily for senior staff. At the lower levels, most staff prefer to work close to their local community.
Setting overall wage rates: The authority to set wage rates generally is a key factor in controlling the wage bill, along with control over numbers of staff.
The Case Studies

Within the context of this overall framework, the experience of eight countries (Benin, India, Indonesia, Mexico, Pakistan, the Philippines, Poland and Uganda) has been reviewed, and the highlights are summarized below. The full case studies can be found in Annex 2.

Under a system of ‘complete’ administrative devolution, the authority for all six dimensions of managerial control would be found at the same level of government where staff are located. The case studies illustrate that, in practice, there are always very sensible reasons to deviate from this a simplistic model. Above all, history and tradition determine much of the present arrangements, and it is difficult to abandon them completely and start again. Moreover, there are quite defensible reasons for higher levels of government to retain some control over staffing at lower levels. Specifically, such an arrangement provides:

- an opportunity to exercise some top-down influence over policy (as a national integrating device) even where political and fiscal authority have been largely devolved;
- a broader set of career options for civil servants, so they are competing for positions both within and outside of their immediate administrative location; and
- some fiscal safeguards in settings where the political pressures might otherwise overwhelm constraints on hiring or remuneration.

There are also sector-specific reasons – particularly in education and health – for maintaining certain personnel management responsibilities outside of the administrative unit where staff are located. For example, there is a need to follow a common set of professional standards in curriculum design and public health. Arguably, this can be achieved most readily by creating overarching staff groupings that share common interests and provide a single career path.

Of the eight case studies, Indonesia, the Philippines, and Poland present the more extensive models of decentralization, taking into account the combined impact of political, fiscal and administrative decentralization, and India, the least. Although Benin is included in this review, its decentralization strategy is still only in the planning stage; nevertheless, it offers some useful insights into the linkages between decentralization and civil service reform.

Benin

Benin is a small West African country that achieved its independence in 1960. Following independence, however, it experienced several years of political instability, followed by 15 years under Marxist-Leninist rule. Only in 1990 was multi-party democracy restored. However, the current structure of the public sector in Benin remains rooted in its two traditions of centralization: both the earlier French colonial administration and the more recent Marxist-Leninist regime.

The Beninese government has made some efforts in the last few years at reforming both public finances and the civil service. It has also made commitments to decentralize government. To this end, it enacted a set of decentralization laws in 1999 and 2000. These laws have yet to be implemented however. Even so, the proposed Beninese model is one of delegation rather than devolution, where the locally elected councils will still be accountable to the central government. The transfer of responsibilities will be very broad in scope, covering almost all areas of local

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3 As noted later in the paper, this assessment for India is primarily based on a review of experience in seven states (Andhra Pradesh, Karnataka, Kerala, Maharashtra, Madhya Pradesh, Rajasthan, and Uttar Pradesh). (World Bank 2000b) The experience in other provinces may be different.
responsibility. However, as is often the case in francophone countries, responsibility for actual service delivery for health, education and (partly) for water, will remain with the central government.

Personnel transfers will be limited to staff of the current local government units (communes). Transfers of staff from deconcentrated central government offices to the communes is not mentioned in the new laws, despite the transfer of some of their current competencies. But communes will be able, if required, to ask the deconcentrated structures to provide them with support, which could well equate to secondment of civil servants to the communes.

It is expected that transferred staff will be governed by separate territorial civil service legislation, paralleling the central government legislation. As such, however, it would carry the same provisions – and problems – that currently exist at the central level, including centrally determined salaries, inability to fire, and an automatic promotion system. To help counteract this high degree of inflexibility, and to fill the gap in anticipated staffing needs, the communes may turn to the practice of hiring contract workers. This practice has been ongoing at the central and département levels in recent years, partially in response to a hiring freeze, as well as to the inherent staffing constraints.

While the decentralization reforms fairly consistently describe a modest level of delegation of authority to the communes, real delegation will depend to a fair degree on the success of parallel reforms to public finance and the civil service.

India

Since achieving independence, there has been a desire in India for increased decentralization beyond the state level. However, early attempts suffered from bureaucratic and political resistance, and inadequate resources. In 1992, statutory recognition of three tiers of local government was established with the 73rd and 74th Constitutional amendments. These amendments required each state to pass conformity laws creating both urban and rural local governments and assigning functions and sources of revenues. Although the required legislation was in place by April 1994, implementation has been very slow, in part due to political reluctance by the state governments, fiscal constraints, and an unsupportive bureaucracy.

While there are some states that have given local government more independence, in most cases states treat local governments as agents of the state government instead of self-governing bodies. State control over local government extends to the determination of functions that are assigned to local government, and varies widely depending on the willingness of each state government.

Virtually all staff working at the local level continue to be state employees. According to statute there is a formal reporting relationship to the locally elected bodies, but in practice staff continue to report through historical lines of authority, whether through the District Rural Development Agency (DRDA), or state sector departments. For example, DRDA directors are now called CEOs of the district panchayats, and interact much more with the district panchayats with regards to beneficiary selection for schemes; however, their roles and authorities have not changed. Sector technical staff continue to report to their old bosses. (World Bank 2000b) There are some exceptions to this; in Kerala, gazetted staff are partially under the control of local panchayats through a dual control mechanism. In Maharashtra, staff of 29 departments have been transferred from line departments to the district panchayats. But all of these staff consider themselves to be

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4 See footnote 3.
civil servants on deputation to the district panchayats. The state government pays their salaries and they report to the line departments on technical matters. Elected heads of local government in some instances can provide comments on the employee’s annual performance review, and can request transfers, but to a large degree locally elected bodies have no authority over state employees working in the local government, including hiring and firing.

Compared to the other case studies, there appears to be a significant divergence between the formal model of decentralization as laid out in the constitutional amendments and supporting state legislation, and the reality. In practice, very few functions have been devolved, local governments have little or no authority over decentralized provincial staff, and at best present a model of (limited) delegated authority.

**Indonesia**

Following the highly centralized, 32-year rule by President Suharto, strong calls for greater regional autonomy led the national (unitary) government in Indonesia to adopt a policy of decentralization. In 1999, a sweeping plan for decentralization was enacted through the approval of two laws: No. 22 on regional government and No. 25 on regional fiscal balance, both with implementation beginning January 1, 2001. Following approval of these laws, both national and regional elections were held in the same year. For the first time in 40 years, local assemblies at the provincial and district levels were democratically elected. By the end of September 2001, the transfer of 2.1 million civil servants, along with facilities and archives, was largely completed. Most of the staff affected by these transfers simply moved from one office to another within the same city, as much of the government’s service delivery had already been deconcentrated.

The transferred staff are now formally employed by the regional governments, which have the authority to hire and fire, transfer, promote, etc. However, many of the specifics about how employment will be managed have yet to be resolved. New regulations have been created that govern hiring procedures, requiring nationwide advertising for some posts and local advertising for others. In addition, the national civil service agency is drafting guidelines on job classifications and qualifications that it wants to see applied at the local level, and some sector ministries are drafting similar guidelines. These directives will have a significant impact on the regional government’s flexibility in managing staff. While the regional head has the right to determine overall establishment levels, other regulations – including a ‘zero growth’ policy apparently enforced sector by sector – restrict the region’s ability to adjust its workforce according to need. The central civil service training agency also retains its monopoly on mandatory training for the highest civil service ranks.

In addition, because financing has been inadequate for many regions, there has been considerable pressure to reduce the number of staff, or to not accept all devolved staff. In some cases, there have been significant delays in assigning devolved staff to specific posts. Some regions have tackled the issue of excess staff more rationally. For instance, Yogyakarta, which saw an additional influx of civil servants during the transition in 2001, has started a civil service reform with many commendable features. The provincial government reviewed its functions, organization, and staffing, and on that basis decided on the structural staffing needs for government, and offered an exit package for excess staff. Other regions, however, still struggle with overstaffing and civil service management issues.

There is also a major concern among transferred civil servants regarding their inter-regional mobility. This concern exists partly because these staff are no longer part of a central civil service, but also because of concerns that some local governments are discriminating on grounds
other than professional. There have been many reports of regional, ethnic and special interests affecting decision-making by regional governments at the expense of wider priorities.

The Indonesian government’s approach to decentralization has been radical, in terms of scope, degree of local autonomy, and speed. While there remains significant oversight and coordination from the center, the reforms have moved the country a significant degree towards devolution.

**Mexico**

Historically, Mexico has been characterized by strong centralized government dominated by a single political party; the Partido Revolucionario Institucional (PRI) had been in power for the 71 years since Mexico’s independence, until it was finally defeated in the Presidential elections of 2000. Concurrent with the growth in multi-party politics during the 1980s and 1990s, the demand for increased decentralization also grew.

In Mexico, decentralization has occurred on a sector-by-sector basis, and by unilateral decisions of the federal government. The broad assignment of responsibilities among the three levels of government is: health and education to the states; local streets and sanitation to the municipalities; and, everything else to the federal government. For those functions that have been decentralized, the federal government tends to play a significant role in policy design and financing, while the states, and to a less extent municipalities, tend to take the lead for implementation and delivery.

The bulk of revenues for both states and municipalities come from two forms of federal transfers – conditional and unconditional. For the states, about half of all transfers are conditional; furthermore, part of the so called unconditional funds in fact have to be used to match funds from other federal programs, or to pay for federally mandated salaries. As a result, most transfers to states are controlled by federal policy. The degree of control by the federal government over decentralized functions through financial conditions, as well as the setting of policy norms and standards, have effectively reduced a politically devolved sub-national structure to one that is more accurately described as a form of delegation.

Although employees in education and health were transferred to the state governments as part of the decentralization process, and are therefore employees of the state, the federal government (along with the sector unions) still has significant control. Specifically, it is the federal government that bargains with the unions, setting pay and other working conditions. States do have the authority to hire and fire, but with limitations.

Decentralization in basic education is governed by the 1992 National Agreement to Modernize Basic Education, signed by the federal government, the state governments and the National Union of Workers in Education. Under the agreement, the central government remains in charge of setting standards, developing curricula and teaching programs, training teachers, producing most textbooks, and evaluating and monitoring performance. The fact that pay scales are set nationally is becoming increasingly problematic in Mexico. In areas with strong international links, and in some isolated areas, there is difficulty in attracting teachers. Either federal funding will be needed to boost salaries, or states will have to raise more revenues locally to supplement the national minimum standard. Doing so, however, will require the unions to be willing to negotiate salaries locally.

Health care decentralization began in earnest in the mid-1990s. To coordinate the reform, the National Health Council was created in 1995, with representation from all states and federal governments. Its functions include negotiation, dialogue and conflict resolution along with coordination of reforms. The reform created new agencies in the states called public...
decentralization units (OPDs). During the decentralization process, all federal employees were transferred to the OPDs as state employees and all state personnel were brought up to the pay levels of federal employees. The federal government paid the financial costs of this policy. These OPDs are part of the state health budget and have considerable autonomy for allocating current resources in primary and secondary care.

**Pakistan**

Since achieving independence in 1947, Pakistan has gone through considerable political upheaval. A new constitution that established an Islamic republic was adopted in 1956, but has been revised several times since. Between 1988 and 1999, Pakistan went through 7 governments before General Musharraf took control through a military coup. The current administration has created a new tier of democratically elected local governments and is committed to establishing democracy at the three levels of government (federal, provincial and local).

Politically and, to a lesser extent fiscally, there has been significant decentralization. Many functions, powers and resources have been transferred from the provinces to newly established local governments. Prior to August 14, 2001, when the Local Government Ordinances (LGOs) were promulgated, the four provinces were divided into three administrative levels, resulting in a national array of 26 divisions, 105 districts and 354 tehsils. Other local government bodies existed mainly in urbanized areas and, in decreasing order of size, there were two metropolitan municipal corporations (Lahore and Karachi), 12 municipal corporations, 144 municipal committees and 303 towns committees. In rural areas, district (zila) councils were responsible for local services. The districts and divisions were distinct legal entities (created by the Provinces as envisaged by the 1973 Constitution), but unlike the Provinces they lacked constitutional status.

After devolution, Pakistan remains, constitutionally, a two-tier federal state. However, there are now 6,458 new local self-governments for the population of 146 million: 97 districts and 4 city districts; 306 tehsil municipal administrations and 29 city towns; and 6,022 union administrations. Political reforms have included the election of 126,462 new union councilors, and intricate arrangements for both the internal and external recall of the nazimeen in local government.

Responsibility for education, health, agriculture and local transport has been passed from the provinces to the districts, while local infrastructure services including water and sanitation have been transferred to the tehsils and, to a lesser extent the union councils.

The National Reconstruction Bureau (NRB) has set out a detailed framework for administrative decentralization, such that the structure of district government is fairly standard within and between provinces. The district administrations are headed by a District Coordinating Officer (DCO), who reports to the Nazim (district political head). Below the DCO is a structure of 10 to 12 Executive District Officers (EDO), who report to the DCO and are each responsible for a particular sector. Provincial staff have been ‘mapped’ on to the district government structure by the provincial Local Government departments. The DCO position has been filled by either a federal or provincial civil servant. Below the DCO, staff continue to be provincial employees in a formal sense, but appointment, promotion and transfer authorities have largely been granted to district governments. It is expected that lower level employees will eventually be transferred to the districts and into separate district cadres. But according to the Local Government Ordinance 2001, senior staff will continue to be provincial civil servants. Similarly, tehsil governments will be staffed by a combination of provincial, district and tehsil cadres. Union councils will be staffed with provincial and union council cadres. For most staff affected by devolution, there has
been minimal geographical dislocation, as generally staff have moved from a deconcentrated provincial office to a district office, within their place of residence.

The transfer of funds for paying staff from district budgets has been a particular problem within Pakistan. In Sindh and NWFP, salaries are still paid from provincial Account I rather than the district-controlled Account IV. The districts must seek approval from the province for the release of the funds for their salary payments. Thus, for most staff the salaries effectively are still paid from the provincial budget. This means that the largest part of the budget is outside of the control of the district government - and very particularly, they have no ability to reallocate resources or to change the composition of the workforce. Once salary budgets are paid through Account IV, the districts would be able to select more of one type of staff or skill and less of another. In practice, the provinces may retain control over the creation of new sanctioned positions – but at the least the districts would be empowered to reallocate any staffing savings. The Government of Punjab has begun working on this issue. Retention of provincial control over the salary budgets undermines the significance of the newly established Provincial Finance Commissions which, based on the NRB's model, have been established to evolve and apply formulae for the distribution of resources between the provincial and local governments.

The legal frameworks for decentralization established by the federal and provincial governments clearly envisage a strong ongoing presence by the provincial government. Maintaining provincial control over senior staff at the local level would appear to be consistent with this. The arrangements also address a desire to maintain cross-district mobility for well-trained, highly skilled staff and those with potential for advancement. Even if senior staff are to remain provincial employees, reporting relationships, performance evaluation, and personnel management should clearly rest with the local levels they serve, regardless of whether they are considered provincial or local staff. Ultimately, a better balance may be struck between career mobility and accountability by creating local government cadres serving all the districts within a province, so that mobility is protected, but accountability is squarely at the district level.

**The Philippines**

In reaction to 14 years of authoritarian rule by the Marcos government, decentralization was a key promise of the new Aquino government that took office in 1986. Decentralization was mandated in the new constitution of 1987, and detailed in the Local Government Code of 1991. The Code transferred significant financial resources, responsibilities and personnel from the national government to local governments. Although the Code legally took effect on January 1, 1992, in practical terms implementation was postponed until after the May 1992 elections for all local government offices, Congress and the presidency. As a consequence of decentralization, some 70,000 national government staff were transferred from the Departments of Health, Social Work and Development, Agriculture, and Environment and Natural Resources to local government units (LGUs).

Although there are some constraints placed on local government affecting how they manage their staff, in particular centrally established salary levels, LGUs appear to have exercised considerable independence. For example, national salary scales for devolved employees sometimes create budget crunches and pay disparities between devolved and local officials. Where the central scale is too low, some provinces have supplemented devolved civil service pay out of local funds in order to alleviate the disparity. In other cases, the LGUs ignore centrally mandated civil service pay increases either because they cannot afford them or wish to save resources. (Azfar 2000) In some cases of mandatory devolved positions, local governments have simply chosen not to make the requisite appointments.
The most significant area of decentralization in the Philippines has been health care. Health care decentralization began in 1993 but was delayed until 1995. One of the issues that contributed to this delay was the significant concern on the part of national government employees in the health care system who were designed for devolution. To help address the issue, in 1993 the government passed the Magna Carta of Public Health Workers Act, which gave health care workers a comprehensive and generous package of benefits and guarantees. But, the Magna Carta amounted to an unfunded mandate that put financial pressure on LGUs, and also deepened the gap between reassigned Department of Health and locally-hired staff. This led in 1995 to a follow-up Barangay Health Workers Benefit and Incentives Act, which gave local workers access to civil servant status and other incentives and benefits. Nevertheless, demoralized hospital workers participated in an unsuccessful campaign to re-nationalize of hospitals, since they believed devolution threatened their pay and working conditions, as well as their professional prospects compared to their national government colleagues.

The Philippines provides a good example of a decentralization model where the responsibility for functions, fiscal resources, staffing and administration have shifted more or less in a consistent fashion. Certainly, there are areas where the national government continues to exert influence, in terms of setting standards, controlling central salaries, and imposition of other unfunded mandates. But by and large, it would appear that the local governments have been able to exercise enough flexibility to find solutions that, if not ideal, are at least workable.

Poland

In 1990, Poland’s first non-communist government in 40 years decentralized authority for a significant number of service delivery responsibilities to democratically elected municipal governments (gminas). In the summer of 1998, the parliament created powiat (county) and voivodship (regional) self-governments, effective from January 1, 1999.

The gminas are the basic unit of local government – the only level explicitly referenced in the Constitution – and have delivery responsibility for a wide range of functions, including local transportation, social welfare, water and sewage, public health, primary education, sport and culture, housing, parks, fire protection, etc. Powiats have responsibility for secondary education, health care institutions, and other functions that extend beyond communal boundaries. Regional governments are focused on regional development. Revenues come from four sources: own-source revenues, shared taxes, a general subsidy grant and specific grants.

Generally, the functions devolved to local governments have been accompanied by transfers of staff, and local government has become the employer. The main transfers of staff took place in 1992, when about 75,000 staff were transferred to the local level. The Act on Self Government Employees of February 22 1990 regulates employee relations in local government. Local governments do engage in personnel and wage bill management practices similar to those of the central administration, but their autonomy is largely limited, either by controls over complement or by centrally set remuneration scales.

The case of education deserves some specific attention, in that it illustrates fairly starkly the impact of decentralizing service delivery while trying to maintain central control over content. The Ministry of National Education (MNE) retains power over teachers’ employment (through the Teachers’ Charter), education programs (unified curriculum and textbooks), and pedagogical supervision carried out by provincial superintendents. MNE even determines the number of teaching hours per subject. The Teachers’ Charter defines teacher qualifications, and regulates salaries, appointment rules, career path and teaching load. In municipally operated schools,
teacher salaries are funded through local budgets and levels are determined by the school principal (through top-ups to basic pay); the principal also decides how many teachers to hire, evaluates them according to MNE regulations, and may fire poorly performing teachers. But the rules of appointment and teaching load (18 hours per week) constitute important privileges of the profession and are strongly defended by powerful teachers unions; in practice, it is very difficult to fire teachers. Also, the low teaching load makes personnel policy difficult and the use of labor resources within a school not very effective.

From the beginning, decentralization in Poland has been lead and influenced by politics, not only the broader trend to decentralize in the context of post-communist government, but also the internal political flows among weak and shifting coalitions. As a result, decentralization has moved ahead, but checks have been put in place along the way to protect the central state government. Thus, considerable fiscal decentralization has been sanctioned, but program standards have placed restrictions how the money is spent. Staff have been devolved, but the interests of the unions have been protected. While these do not seem to be insurmountable problems, they certainly suggest that the full benefits of improved service delivery have not been realized.

**Uganda**

One of the key reforms of the National Resistance Movement (NRM), upon taking power in January 1986, was the endorsement of decentralization. In 1993, Parliament enacted the Local Governments (Resistance Councils) Statute, which assigned specific functional responsibilities to local government. Decentralization was also incorporated to the 1995 Constitution, and in 1997 the Local Government Act was passed which further detailed the roles, function and powers of local and central governments.

Most service delivery functions have now been decentralized to local government, along with staff and assets. The central government continues to be responsible for typical national public goods, such as law, order, defense, foreign affairs, monetary policy, natural resources, and the regulation of all economic sectors. Essentially, all other functions have been decentralized; however, the central government retains the power to set national guidelines and standards in most policy areas for which local governments are responsible. Local funding comes from four main sources: locally collected revenues; central government transfers; donations/donor grants; and other sources. All staff at the district and other levels of local government are employed locally.

There is a District Service Commission (DSC) in each district, appointed by the District Council; the DSCs are responsible for advertising vacancies, interviewing and hiring front-line workers, and providing oversight of personnel practices, both for districts and other local government. General recruitment standards are set by the Public Service Committee at the national level. Recruitment is expected to be based on merit and staff may be recruited from anywhere in the country, although this is not always true in practice.

Wages and establishment ceilings are determined centrally. Performance evaluations are rarely done; however merit is usually taken into account in considering promotions. Discipline is a significant problem, with little ability to enforce discipline in many cases. Political influence at the local level sometimes makes it difficult to enforce codes of conduct. A serious problem for local staff is the lack of career perspective and mobility. Interviewees from a recent agriculture sector study tour noted that many staff had not changed positions since devolution.
Broad-based decentralization has taken place within a relatively short length of time, in an institutional context where there was very little existing local capacity. But this decentralization has been carried out within a tight set of policy and administrative controls from the center, ranging from centrally established pay rates, policy norms, establishment ceilings and growing dominance of conditional fiscal transfers, to the extent that decentralization is better described as delegation than true devolution. As local capacity continues to improve, however, it may be that some of the more restrictive dictates from the center can be loosened.

Assessment

Comparing the Cases

The case studies presented in this paper describe a range of decentralization models. The Philippines and Indonesia represent the most dramatic examples of decentralization, followed by Poland. Uganda and to a lesser extent Mexico and Pakistan represent intermediate examples. In each case, a broad range of functions has been devolved to local government, and the staff performing these functions have also been transferred. Local governments have the authority to hire, fire, transfer and promote staff. Wages rates continue to be set centrally, although in the Philippines, Uganda and Poland there is some ability to top up wages where necessary. In the Philippines, Indonesia and Poland there is some local control over establishment levels. Although considerable decentralization has been achieved generally in Poland, central control of teachers in terms of pay, supervision, and conditions of employment has severely limited the ability of local governments to influence this specific area of service delivery.

Mexico is a mixed story, where decentralization has occurred on a sector-by-sector basis. In the two main sectors, health and education, the influence of unions has been significant, with a greater degree of decentralization achieved in health, through cooperative negotiation, than has been the case in education, where the practice can best be described as delegation.

In Pakistan, administrative decentralization has significantly lagged behind political and fiscal decentralization. India presents an interesting example of decentralization in practice being significantly more limited than the intent as contained in the constitutional amendments.

The starting point for Benin is starkly different from the other cases, in that the country is extremely centralized, and the planned reforms, involving a combination of deconcentration and delegation, are moderate in comparison. However, achieving even these gains will be very challenging, given existing civil service structures and anticipated resistance to change.

Table 2 presents a summary of how the staffing model in each of the case study countries fares against the characteristics described earlier in Table 1.
Table 2: Assessing the Case Studies Against the Decentralized Staffing Model

<table>
<thead>
<tr>
<th>Enabling Mechanisms</th>
<th>Weak Decentralizers</th>
<th>Intermediate</th>
<th>Strong Decentralizers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget Transparency</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Processing the payroll</td>
<td>P</td>
<td>P</td>
<td>P</td>
</tr>
<tr>
<td>Budget &amp; Establishment Control</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Controlling overall staff numbers</td>
<td>n/a</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>• Controlling staff numbers in local offices &amp; facilities</td>
<td>n/a</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>• Authority to dismiss surplus staff</td>
<td>N</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Recruitment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Formal employer</td>
<td>P</td>
<td>N</td>
<td>P</td>
</tr>
<tr>
<td>• Authority to hire</td>
<td>P</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>• Independent merit-based recruitment mechanisms (e.g. PSC)</td>
<td>N</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Career Management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Promotion</td>
<td>N</td>
<td>N</td>
<td>Y</td>
</tr>
<tr>
<td>• Transfers within local government</td>
<td>P</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>• Horizontal mobility</td>
<td>N</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Performance Management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Direct and supervise activities and tasks</td>
<td>P</td>
<td>N</td>
<td>Y</td>
</tr>
<tr>
<td>• Conduct evaluations</td>
<td>N</td>
<td>P</td>
<td>P</td>
</tr>
<tr>
<td>• Ability to discipline/fire</td>
<td>N</td>
<td>N</td>
<td>Y</td>
</tr>
<tr>
<td>Pay Policy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Set local hardship/remoteness allowances</td>
<td>N</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>• Set overall wage rates</td>
<td>N</td>
<td>N</td>
<td>N</td>
</tr>
</tbody>
</table>

Key: Y=yes, P=partial, N=no

1/ Decentralization is still in transition. Lower-level staff are being transferred, along with associated authorities.
2/ Provision exists, but not yet in practice.
The Path that the Decentralizers Have Followed

The Advanced Case: Strong Decentralizers

There is consistency in the characteristics of the countries that are relatively more administratively decentralized – Indonesia, the Philippines, and Poland. In other words, those countries that are the most decentralized tend to be decentralized in the same way. These ‘strong decentralizers’ all have strongly decentralized mechanisms for budget transparency (processing payroll locally), budget and establishment control (controlling overall staffing numbers and disposition of staff within local offices and facilities, authority to dismiss surplus staff) and performance management (directing and supervising activities and tasks, conducting performance evaluations and undertaking discipline). As for performance management, in most cases this authority is tempered or guided by centrally established guidelines or directives, and in practice performance evaluations are far from institutionalized, but the tools are in place. By contrast, in the ‘weak decentralizers’ – India and Benin – these same mechanisms continue to be controlled by the central government.

The more decentralized countries also have some ability to undertake their own recruitment (they are legally recognized as the employer and authorized to hire), and career management (offering promotion, making transfers within local government). These mechanisms are noticeably absent in the case of India and Benin.

But even for the strong decentralizers, the resultant arrangements give them only marginal ability to attract and retain staff. This is raised in the case studies as a consistent concern, particularly for staff at the most senior levels who feel they have lost career opportunities by being transferred to a lower level of government. (This is a less significant issue for lower level staff who usually prefer to stay in their local community throughout their career, and are therefore not interested in mobility). From the employer’s point of view, the ability to attract skilled professionals directly affects local government’s ability to deliver its mandate; but from the perspective of these highly skilled staff, a transfer to local government can mean losing significant mobility that can in turn hinder career development. There were no cases where this disincentive for staff to transfer has been effectively addressed, although in some situations financial incentives have been used.

Points of Entry

To the extent that the ‘intermediate’ decentralizers are on a path towards becoming ‘strong’ decentralizers, it seems that some control over recruitment (being legally recognized as the employer), career management (control over transfers within local government, managing promotion) and performance management (directing and supervising activities and tasks, conducting performance evaluations) are the preferred (or perhaps the easiest) points of entry.

This is undoubtedly because in ensuring a basic level of local accountability for staff it is most important to be able to directly supervise activities of staff, and reward and promote good performance. Being able to discipline or even fire poor performers is also critical to accountability, but is usually only tackled by the strong performers. Other mechanisms, such as establishing local government as the formal employer, and issuing pay directly to staff, will strengthen the accountability relationship but they are not the most critical factors. Thus, for potential early gains in local control, performance management and promotion mechanisms stand out as the most significant.
Table 3: Points of Entry for Administrative Decentralization

<table>
<thead>
<tr>
<th></th>
<th>Weak decentralizers</th>
<th>Intermediate decentralizers</th>
<th>Strong decentralizers</th>
<th>Long term reforms</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Budget Transparency</strong></td>
<td>Processing the payroll</td>
<td>Controlling overall staff numbers</td>
<td>Controlling staff numbers in local offices &amp; facilities</td>
<td>Authority to dismiss surplus staff</td>
</tr>
<tr>
<td><strong>Budget &amp; Establishment Control</strong></td>
<td>Formal Employer</td>
<td>Authority to hire</td>
<td>Independent merit-based recruitment mechanisms (e.g. PSC)</td>
<td></td>
</tr>
<tr>
<td><strong>Recruitment</strong></td>
<td>Promotion</td>
<td>Transfers within local government</td>
<td>‘Free’ labor market across local governments</td>
<td></td>
</tr>
<tr>
<td><strong>Career Management</strong></td>
<td>Direct and supervise activities and tasks</td>
<td>Ability to discipline/fire</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Performance Management</strong></td>
<td>Conduct evaluations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Pay Policy</strong></td>
<td>Set local hardship/remoteness allowances</td>
<td>Set overall wage rates</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

It is also clear that local government needs at least one mechanism that allows it to move staff to where the need is greatest, in order to meet its service delivery priorities. This can be accomplished either directly, through local authority to transfer staff, or indirectly, through the use of hardship/remoteness allowances. Of the two, transferring would seem a better point of entry candidate.

There is also a tradeoff to be considered in relation to the ability of local government to control the overall financial resources devoted to wages. Since it is improbable that the authority to set wage rates will have been decentralized, it is important that local governments do have control over numbers of staff. Thus even where they are not authorized to hire, they should at least be able to effectively veto further recruitment.

**Long Term Reforms**

Some issues cannot be addressed in the short to medium term. Centrally established base wage rates are a feature common to all the cases. Although this is certainly constraining, in the more decentralized cases this is somewhat mitigated by the ability to increase or decrease numbers of staff. In addition, the ‘strong’ decentralizers generally have some ability to supplement wages where necessary. Where the central government controls wage rates, staff numbers and the ability to dismiss surplus staff, management has virtually no flexibility.

Similarly, independent oversight over recruitment (district service commissions etc.) was not available in any of the strong decentralizers (although, interestingly, this was available to Uganda, an intermediate case). Effective mobility of decentralized staff across local governments was also not seen in the case studies. While a few cases had provision for a more open labor market, staff consistently viewed this a serious concern. This might be a reflection on the choice of countries.
selected in a recent review, 11 of 34 OECD countries and select Central and Eastern European
countries have a separate civil service for subnational government.\(^5\)

The unsolved problem concerns the ability of local government to attract and retain skilled staff.
In all of the cases, this is the weakest area, but some positive results have been achieved with the
use of salary incentives or hardship/remoteness allowances. However, it is clear that this area
warrants further attention.

**Lessons for Developing an Action Strategy**
Extrapolating from these case studies, we can begin to deduce some stylized lessons for would-be
decentralizers.

**Some Points of Entry Are More Feasible**

- First, think about devolving authority over:
  - performance management (directing and supervising activities and tasks,
    conducting performance evaluations, and undertaking discipline)
  - career management (managing promotions, and devolving control over transfers
    within local government)
  - recruitment (legally recognizing local government as the employer)

- Ensure that staff can be moved to where the need is greatest.
- Provide local governments with control over numbers of staff (where local government is
  accountable for the size of the wage bill).

**Build on These in the Medium Term**

- Where this has not already been achieved, decentralize mechanisms for:
  - budget transparency (processing the payroll)
  - budget and establishment control (controlling overall staffing numbers and
    disposition of staff within local offices and facilities, and authority to dismiss
    surplus staff)
  - recruitment (legally recognizing local government as the employer authorized to
    hire)
  - career management (offering promotion, making transfers within local
    government)
  - performance management (directing and supervising activities and tasks,
    conducting performance evaluations and undertaking discipline)

- Recognize that performance management authority will be tempered by centrally
  established guidelines or directives.
- Note the persistent problem for local government of attracting and retaining staff.

**Recognize Constraints**

- Centrally-established base wage rates are unlikely to be devolved in the short or medium
  terms.
- Independent oversight over recruitment (district service commissions etc.) are difficult to
  establish.

\(^5\) This is not to say that these 11 have established any automatic right of transfer for staff between local
governments – but doubtless having common terms and conditions makes it much easier for an
employee of one local government to apply for a position in another. See: The Scope of the Civil
Service in OECD and Select CEE Countries at
Achieving inter-local government mobility for senior staff through the creation of an open public sector labor market at the local level is institutionally challenging. However, recognize that an incremental approach may have some promise; possible stages could include:

1) Transfer lower level staff to the local government in the initial stages of decentralization, but senior staff, who are most likely to fear for their career prospects, could remain officially employees of the central government in the short term.

2) As the decentralization process becomes established, begin to transfer senior staff to local government. At the same time, implement such transitional measures as standardized job grading and recognized skill levels across local governments, and requirements for open access to vacant, senior level posts.

3) In the long term, the focus should be on institutionalizing an open and fluid public sector labor market as exists in many developed countries, which should eventually eliminate the need for standardized job grading.

**Testing the Framework**

The framework presented in this paper has been built from evidence provided from eight case studies, and thus has presented a reasonable base on which to diagnose the degree of managerial control, and to start extrapolating some lessons. In fact, the framework has been applied in recent work on Pakistan and East Asia. Nevertheless, this is a challenging area, and when each case study comes with its own unique features, one must acknowledge that the sample is limited. A valuable next step would be to test this framework by collecting and analyzing comparable data from a broader set of countries. A possible questionnaire for such a study is included in Annex 1.

**Specific Examples of Interesting Practices**

In addition to these broad conclusions that can be drawn from the case studies, there were some specific examples of ‘interesting practice’ that are worth highlighting.

- **Rapid assessment appraisals.** To support the process of implementing decentralization in the Philippines and Indonesia, both countries have used a technique to provide quick feedback to government on progress, and recommend adjustments where necessary.

  ‘Rapid Field Appraisals,’ funded by USAID, have been conducted periodically in the Philippines since the implementation of the Local Government Code in 1992. The technique was designed to provide timely information for decision-makers during the course of implementation and to monitor nationwide progress towards decentralized democracy. Each appraisal takes about six weeks to complete. Locally based consultants prepare regional reports based on roughly ten days of fieldwork. The observations are collated and analyzed, and then presented to decision-makers and influential individuals in the decentralization process. These appraisals have helped the government to respond more quickly to problems that have arisen during the course of implementation.

  In Indonesia, the Asia Foundation has launched a similar process of ‘Rapid Decentralization Appraisals.’ The first appraisal was conducted between November 2001 and February 2002, and involved surveys in four cities and eight kabupatens in 13

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6 The East Asia study is being conducted by the World Bank. The Pakistan study has been published as (Charlton et al, 2004)
provinces. The appraisal examined issues related to the devolution of personnel, assets and reorganization of local government institutions, fiscal decentralization, public services, transparency, accountability and civil participation, inter-governmental relations, and the understanding of the concept of regional autonomy.

- **Coordinating committees.** Some countries have also made use of coordinating committees to deal with transition issues. In Mexico, for instance, the relative success of decentralization within the health sector is partly attributed to the efforts of the National Health Council. Its membership is made up of federal and all state governments, and its functions include negotiation, dialogue and conflict resolution along with coordination of reforms. In the Philippines, an interagency oversight committee was formed to support the implementation of the Local Government Code. Membership included LGUs through their respective ‘leagues’ or associations, the Bureau of Local Government Finance of the Department of Finance, the Department of Budget and Management, and the Department of the Interior and Local Government. The committee was mandated to address specific problems referred to it for resolution.

- **Local government associations.** Growing out of the Philippines’ tradition of local government and culture, the creation of various ‘leagues’ of local government units has been a major feature of that country’s shift to local governance. LGUs began to organize themselves into strong advocacy groups in the late 1980s. They have variously formed the League of Provinces, the League of Cities, the League of Municipalities, and the Liga ng mga Barangay. Local officials have likewise organized themselves into the League of Vice Governors, Vice Mayors League, Philippine Councilors League, and the National Movement of Young Legislators. Local governments have also consolidated their forces into an overarching Union of Local Authorities of the Philippines. Through these associations, they have proposed major amendments to the Local Government Code, and have been at the forefront of resisting the imposition of unfunded mandates. These organizations are now well established, many with their own secretariats that provide professional support and assistance. (Brillantes and Cuachon 2002)

- **District service commissions.** Of the eight cases, Uganda is the only one thus far to introduce a local civil service commission. In this case, District Service Commissions (DSC) have been appointed in each district. The DSCs are responsible for advertising vacancies, interviewing & hiring front-line workers, and providing oversight of personnel practices, both for districts and other local government units. General recruitment standards are set by the Public Service Committee at the national level. Recruitment is expected to be based on merit and in principle staff may be recruited from anywhere in the country. In practice, the DSCs have some way to go; there is usually a backlog in recruitment, performance evaluations are rarely done (however merit is usually taken into account in considering promotions), and the inability to enforce discipline remains a significant problem. But the DSCs offer the potential for promoting recruitment of a qualified, professional civil service, across a number of LGUs.

- **Recognition of excellence.** As part of the Philippines’ decentralization strategy, it established Galing Pook awards for innovation in local governance – a program that highlights and helps replicate best practices. This program has encouraged entrepreneurial action by many individual local governments to experiment and innovate with regards to service delivery.
Sequencing with Other Administrative Reforms

Administrative decentralization is rarely an isolated reform. Generally it is taking place in the context of extensive administrative reforms elsewhere.

Broadly speaking, civil service reforms are of two types (Manning and Parison, 2003). Basic reforms (include enhancing job security and strengthening protection from political interference, and creating a legally defined civil service cadre with common terms and conditions) are intended to provide for the standardized application of promotion and reward rules, and the encouragement of long term careers within the civil service, building a relatively 'closed' career system. Advanced civil service management reforms are in many ways the opposite of the basic reforms. In career management, many advanced reformers are decreasing tenure and making terms and conditions more equivalent to those found in the private sector. The unity of the civil service is being reduced through fragmented and diversified pay arrangements, determined at agency level. Annual performance targets increasingly inform individual incentives, although the use of performance-related pay remains limited and controversial. Use of fixed-term contracts, particularly for management positions, together with full, open, external recruitment for such positions, has also been comparatively widespread. Other advanced civil service reforms include strong moves towards "position-based" systems, where the emphasis is placed on selecting the best-suited candidate for each position to be filled, with increased opportunity for "lateral entry". Such reforms are usually associated with a shift away from a rank-in-person system to a rank-in-post system, where remuneration can be more directly linked to responsibility.

Good arguments can be made for broader civil service reform to precede decentralization, or to follow. Despite many claims, the case studies provide no direct evidence of local government reforms acting as a catalyst for reforming central government. However, unproven as this strategy might be, in many contexts there seems little option but to try it.

Administrative Reform within the Fiscal and Political Context

Similarly, administrative decentralization rarely takes place in isolation from fiscal and political decentralization. In fact, these three ‘dimensions’ of decentralization are all closely interconnected. Political decentralization deals with the degree of local versus central accountability. Fiscal decentralization deals with who sets and collects what taxes, who is responsible for what expenditure decisions, and how the ‘vertical imbalance’ (measured as the transfers to subnational government as a share of total subnational expenditures) is resolved. Administrative decentralization deals with the staff and bureaucratic structures that deliver services.

In addition, there are different degrees of decentralization, which tend to be divided into three general levels: deconcentration, delegation, and devolution. Deconcentration occurs when the central government disperses responsibilities for certain services to its regional branch offices.

7 It is in the Anglophone OECD countries where the direction of reform has been most strikingly to reduce security of tenure and to downplay seniority in promotion and career advancement. In these settings, the unity of the civil service has also been reduced somewhat, as individual agencies become more akin to separate private sector employers with divergent terms and conditions for their staff. In other settings, concerned that they did not already have a well-entrenched tradition of merit-based civil service employment, the focus has been to improve the legal arrangements defining access to civil service positions, and the responsibilities of civil servants.

8 Under a rank-in-person system, promotions can take an employee up through various grades while they remain in the same post. In rank-in-post systems, promotion is generally to a new job. All systems have some mixture of the two systems – the issue is one of appropriate balance.
With deconcentration there is no transfer of authority to lower levels of government; rather, decision-making has simply been shifted to national government staff that are located in the regions. In contrast, delegation occurs when the central government transfers responsibility for decision-making and administration of public functions to local government or semiautonomous organizations that are not wholly controlled by the central government, but are ultimately accountable to it. Delegation is often characterized as a principle-agent relationship, where the agent is induced to act in accordance with the wishes of the central government. Finally, devolution occurs when the central government transfers authority for decision-making, finance and management to quasi-autonomous units of local government, who are accountable to their constituencies for their performance. (Litvack, Ahmad and Bird 1998)

<table>
<thead>
<tr>
<th>Deconcentration (minimal)</th>
<th>Political Features</th>
<th>Fiscal Features</th>
<th>Administrative Features</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• No locally elected governmental authority.</td>
<td>• Local government is a service delivery arm of the central government, and has little or no discretion over how or where service is provided.</td>
<td>• Staff working at the local level are employees of the central government, and fully accountable to the center, usually through their respective ministries.</td>
</tr>
<tr>
<td></td>
<td>• Local leadership is vested in local officials, such as a governor or mayor, who are appointed by and accountable to the central government.</td>
<td>• Funding is provided by central government through individual ministry budgets.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Delegation (intermediate)</th>
<th>Political Features</th>
<th>Fiscal Features</th>
<th>Administrative Features</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Government at the local level is lead by locally elected politicians, but they are accountable, or partially accountable, to the central government.</td>
<td>• Spending priorities are set centrally, as well as program norms and standards; local government has some management authority over allocation of resources to meet local circumstances.</td>
<td>• Staff could be employees of the central or local government, but pay and conditions of employment are typically set by the center.</td>
</tr>
<tr>
<td></td>
<td>• Local government can set spending priorities and determine how to best meet functional obligations.</td>
<td>• Funding is provided by the central government through transfers, usually a combination of block and conditional grants.</td>
<td>• Local government has some authority over hiring and location of staff, but is less likely to have authority over firing.</td>
</tr>
<tr>
<td></td>
<td>• Funding can come from local revenues, revenue sharing arrangements and transfers (possibly with broad conditions) from central government.</td>
<td>• There are no independent revenue sources.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Devolution (substantial)</th>
<th>Political Features</th>
<th>Fiscal Features</th>
<th>Administrative Features</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Government at the local level is lead by locally elected politicians who are fully accountable to their electorate.</td>
<td>• Subject to meeting nationally-set minimum standards, local government can set spending priorities and determine how to best meet functional obligations.</td>
<td>• Staff are employees of local government.</td>
</tr>
<tr>
<td></td>
<td>• Local government can set spending priorities and determine how to best meet functional obligations.</td>
<td>• Funding can come from central government.</td>
<td>• Local government has full discretion over salary levels, staffing numbers and allocation, and authority to hire and fire.</td>
</tr>
<tr>
<td></td>
<td>• (Standards and procedures for hiring and managing staff, however, may still be established within an overarching civil service framework covering local governments generally).</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 4 describes the key features of the political, fiscal and administrative dimensions within the context of deconcentration, delegation and devolution. In practice, however, these different
dimensions do not always line up. For instance, even though there may be locally elected governments that are accountable to their constituents, the degree of fiscal decentralization may be more characteristic of delegated authority. In some cases, there may be extensive fiscal autonomy in the form of taxing authority and formula-based unconditional grants, but centrally determined wage rates and establishment controls may effectively dictate how those funds are spent. Similarly, full local authority over hiring, firing and establishment controls may be overshadowed by fiscal arrangements that are governed by detailed conditionality.

The treatment of staff and related administrative issues can have a direct effect on how well the intended degree of decentralization is achieved in practice. This is not to say that more administrative decentralization is necessarily better; in fact, extensive decentralization can have negative consequences for developing a strong, professional civil service at the local level, if mobility, promotional and financial opportunities are curtailed as a result. Rather, the conclusion that should be drawn is that the interaction of fiscal, political and administrative features needs to be taken into account if the intended degree of decentralization is to be realized.

In reviewing each case study, the key features of the political, fiscal and administrative arrangements were mapped against this framework in order to assess how their combined impact translates into the degree of effective decentralization. Overall, the Philippines and Indonesia, followed by Poland, and then Uganda and Mexico, were found to be the more decentralized of the eight. When the balance between the different dimensions is examined, however, some useful conclusions can be drawn.

In particular, formal political decentralization, as laid out in the constitution or legislation, is usually more extensive than the degree of fiscal and administrative decentralization. In six of the eight case studies reviewed, local governments were governed by locally elected bodies formally accountable to their constituencies, consistent with full devolution. Only in India, where local government laws treat panchayats as agents of the state, and in Benin, where the communes will be accountable to central government, is this not the case. These political configurations reflect the political impetus for decentralization, but it is the nature of the fiscal and administrative relationships that constrain and define the degree of decentralization on a practical level.

For the six countries with ‘autonomous’ local government, in every case there are some restrictions or oversight by national government in terms of how budgets are to be composed, with standards on some services, conditionality for some grants, and restrictions on wage rates, at least to some degree. This is reasonable and to be expected if some consistency or standard of service is to be maintained across the country. But in Pakistan and Mexico (particularly the education sector), the extent of these fiscal restrictions reduces the degree of decentralization to a form of delegation, for all practical purposes. In Uganda and Poland, these national rules and standards are less restrictive; of the eight case studies, local governments in Indonesia and the Philippines have the most fiscal autonomy.

The conclusion is that the formal aspects of administrative decentralization are important to understand, but are not the end of the story. Given that there is room for maneuvering in how formal arrangements are implemented in practice, then to the extent that political devolution is ahead of administrative decentralization, this will inevitably create a dynamic where local politicians want more control over the bureaucracy than they can have and civil servants will see themselves to some degree as bastions of a central administration under threat. To the extent that administrative devolution is ahead of fiscal decentralization, then much of the autonomy will not be used, as civil servants will fear creating fiscal liabilities outside of their authority.

Draft: September 21, 2004
Thus informally, administrative decentralization is likely to be less or more than it appears on paper according to the degree to which it is in step with fiscal and political dimensions.

**Concluding Comments**

This paper has proposed an analytical framework that could be used to unpack the managerial control function, understand its different components, and identify areas where specific action may be warranted. It is a tool that can be used by task managers in their discussions with client governments to diagnose how the managerial function works in practice at the lower levels of government.

While the analysis has been developed based on a review of eight country case studies, it is recognized that the framework needs further testing in a wider range of circumstances before extensive conclusions can be drawn with full confidence. While it has already been used as a diagnostic tool in other research with encouraging results, the complexities and variations of the decentralization process call for more extensive testing.

The paper also goes on to extrapolate some initial lessons for developing an action strategy, but this should not be viewed as a set of definitive rules. Rather, these should be considered a starting point that can be developed as further research in this area proceeds.

In particular, there are several issues that are not addressed in this paper that require attention in their own right, such as the treatment of unions, contract workers and pensions. What impact do different levels, sizes and number of government units have on the analysis? Some countries are devolving to a few, well-established states, while others are devolving all the way to the village level, with thousands of separate entities. And what is the impact of the existing level of capacity? There is an argument to be made that decentralization cannot occur successfully without adequate administrative capacity at the local level, but on the other hand, the best way to build capacity is often by ‘doing.’

It is hoped that the findings in this paper will provide a launching point for tackling some of these more difficult questions.
Annex 1: Questionnaire on Administrative Decentralization

I. STRUCTURE OF SUBNATIONAL GOVERNMENT

1. Does the state have a unitary or federal structure?
2. How many levels of subnational government are there, and what is the hierarchy?
3. How many units of government are there at each level, and what is the split between urban and rural?
4. What functions do the subnational governments perform?
   - Under what legislation are these functions delegated?
   - Can the senior level of government withdraw delegation of these functions?
   - How well defined are these functions?

II. EXPERIENCE WITH DECENTRALIZATION REFORMS

5. Has the country recently decentralized a number of functions to lower levels of government, or is it in the process of doing so?
6. If so, describe the changes that have been implemented, and when? Note in general the relative timing of the political, fiscal, and administrative decentralization reforms.
7. What were the main reasons for undertaking this reform?
8. What is the current status?

III. POLITICAL DECENTRALIZATION

9. Is the subnational government elected?
10. Is the head of government at the subnational level appointed by the senior level of government?
11. Who is the head of government accountable to?
12. Under what legislation is the subnational government created?

IV. FISCAL DECENTRALIZATION

13. What is the source of revenues for subnational government, and what is the total amount?
14. What proportion of these revenues is from own-source revenues versus transfers from senior levels of government?
15. Of the total transfers, what proportion is earmarked or otherwise tied to specific programs or types of expenditures?
16. Of the non-earmarked transfers, what proportion is calculated by formula that is established in law or by some independent body? What proportion is at the discretion of the senior level of government, and therefore can vary from one year to the next?
17. Of the functions that subnational government performs, to what extent does the subnational government have discretion over how the functions are carried out, e.g. can it decide how the service will be provided, where the service will be provided, how much of the service will be provided and what will be provided?
18. To what degree does the subnational government deliver programs on behalf of the senior level of government, e.g. as a delivery agent?
19. Can the subnational government borrow, and if so, under what conditions?
V. ADMINISTRATIVE DECENTRALIZATION

20. Does the subnational government process the payroll, or is it distributed by the central government? In either case, do staff have concerns with the existing process? (See also questions on transitional issues below.)

21. Does the subnational government control the total number of staff? Are there any disincentives to controlling the total number of staff (e.g. automatic reimbursement of wage bill costs by national government)?

22. Does the subnational government control the number of staff in specific ministries, facilities and local offices?

23. Does the subnational government have the authority to terminate staff who are surplus or redundant? Are there limitations on this authority (e.g. legal or financial)? What has been the practice?

24. Is the subnational government the formal employer of all staff?

25. Who do the senior staff in local government report to on substantive issues?

26. Does the subnational government have the authority to hire staff? Does the national government have any role in the hiring process?

27. Is there an independent, merit based recruitment mechanism? If so, provide details.

28. Is there a local civil service commission? What are its functions?

29. Is there a separate law covering local civil servants?

30. Does the subnational government have the authority to promote staff? Is there a merit-based process for approving promotions?

31. Does the subnational government have the authority to transfer staff from one job to another? Do staff have any ability to agree to or refuse a transfer?

32. Do local staff have access to jobs in other local governments, or at the senior government level, through competition or other means? Describe the specific mechanisms. Is there any evidence that staff in fact move between governments?

33. Does the subnational government direct and supervise activities and tasks?

34. Does the subnational government conduct personnel evaluations?

35. Does the subnational government have the authority to discipline or fire staff? Under what circumstances? To what extent are staff disciplined or fired in practice?

36. Does the subnational government have the authority to provide local hardship or remoteness allowances? Have they exercised this authority in any situations?

37. Does the subnational government have the authority to set overall wage rates?

38. Does the subnational government have the authority to provide local hardship or remoteness allowances? Have they exercised this authority in any situations?

VI. TIMING AND TRANSITIONAL ISSUES FOR ADMINISTRATIVE DECENTRALIZATION (WHERE FUNCTIONS HAVE BEEN DECENTRALIZED)

38. Has the government also undergone civil service reform? Has the timing or substance of administrative decentralization been affected by the state of civil service reform?

39. For each of the managerial control mechanisms listed above in questions 20 to 37 (and also listed in Table 1) that have been decentralized to local government, when were they introduced?

40. Were there any specific transitional provisions covering payment of staff? Was there any resistance to the subnational government processing the payroll?

41. For staff who were transferred to local government, how were their pension rights handled?

42. Were there special provisions for unionized or contract workers?

43. Were any other transitional provisions used to mitigate disruption?

44. What other tactics were used to facilitate the decentralization provisions (e.g., monitoring, communications, and coordinating/facilitating mechanisms)?
Annex 2: Case Studies

Benin

Background

Benin is a small, West African country, with a population of 6.3 million and a GDP per capita of US$345 in 2000. The country achieved independence in 1960, but until 1972 experienced chronic political instability. In 1972, the then Major Kérékou took power by military coup, and in 1974 established a Marxist-Leninist regime. This regime came to an end in 1989, and in 1990 a new constitution was approved, a presidential regime instituted and multi-party democracy restored. However, the current structure of the public sector in Benin remains rooted in its two traditions of centralization: both the earlier French colonial administration and the more recent Marxist-Leninist regime.

Current Government Structure

The current central government structure divides the country into départements (regions) headed by a préfet (senior bureaucrat). The office of the préfet is called the préfecture. Within each department, each central government ministry has a technical regional office (directions départementales, or DDs). Départements are further divided into sous-préfectures and in some cases DDs also operate at this level.

Although the préfet is supposed to coordinate all activities at the département level, in fact DDs report directly to their ministries at the center. Furthermore, with the exception of health and education, virtually no decisions are made outside the center, including planning, budget management, and personnel management. The only DD director that currently has any say over personnel is in education, where they have the power to transfer teachers within the département, and can identify to the center a need for additional teachers once a year. But the DD education directors have no ability to discipline teachers.

The Beninese government has made some effort at reforming both public finances and the civil service. Public finance reform, which was launched in the fiscal year 2001, is supported by an IDA (International Development Association) credit. Steps towards a consolidated, results-oriented budget process are underway; however these reforms for the moment remain based in the central government, and have not reached down to the département level.

The civil service is in need of major reforms. It is a career-based structure heavily dominated by the trade unions, with movement within the grades automatic. Appointment to managerial positions (including préfets and DD directors) is based on political connections. Assignment to a département or sous-préfecture is considered a starter position, or possibly a punishment. DD directors have virtually no ability to fire staff, or even discipline staff who, for example, are absent from work for an extended period of time. Salaries are set centrally, through trade union negotiations. There is a civil service reform agenda in Benin, focused on the establishment of a performance-based system, but these reforms are effectively stalled.

Since a freeze on hiring was first imposed in 1989 to control the wage bill, ad hoc hiring of contract staff has been used to cope with specific demands. This hiring has evolved into an organized, parallel employee structure, and one that has given managers more flexibility to match

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9 This case study draws liberally from World Bank 2002a.
needs to resources, and better accountability as well. But this system is under attack by the public service unions.

The third area of reform that Benin is pursuing is decentralization. Benin enacted a set of decentralization laws in 1999 and 2000. These laws have yet to be implemented, however, in part due to their far-reaching implications, given the current state of public administration in the country.

**Description of the Decentralization Model**

The model of decentralization embedded in Benin’s new legislation is a much more limited one than is portrayed in the other case studies. Under the proposed model, the central government will transfer responsibility for a defined set of decision-making and administration of public functions to 77 elected councils covering the administrative areas of the sous-préfectures. These councils will still be under the prefét’s oversight, and accountable to, although not wholly controlled by, the central government. As such, the model is one of delegation rather than devolution. The sous-préfectures will disappear as administrative arms of the central government, but préfectures will remain, exercising authority over both communes and DDs.

**Figure 2: Structure of Government in Benin after Decentralization**

The transfer of responsibilities will be very broad in scope, covering almost all areas of local responsibility. However, as is often the case in francophone countries, responsibility for actual service delivery for health, education and (partly) for water, will remain with the central government.

Although the legal framework for the local revenue structure is in place, there is little analysis on what the impact of this structure will be, and how it will align with spending needs. The revenue base of the new communes will primarily consist of central government transfers, with transfers for salaries of local government staff and sector transfers for health, education, social and cultural services being the primary ones; the conditions to be attached to these transfers have not been
determined. In addition, there will be some transfer of VAT revenues. Finally, there are some existing local taxes, including a business tax, property tax and some license fees and user charges; a new local development tax, based on agriculture, will primarily benefit the richer communes.

Box 2: Benin: Areas of Communal Competency

| Box | Local Development, Planning, Housing and Urbanism: within the areas under their jurisdictions, communes will have full authority to prepare local development plans including development of urban master plans, economic and social development plans, delivery of building permits, and construction controls. |
| Box | Infrastructures and Transport: communes will be responsible for their urban development through: (i) the planning, building and operation of public transport infrastructure and services as well as street lighting; (ii) bus-station construction and maintenance and other similar equipment; (iii) construction of hydraulic infrastructure, and local telecommunication lines; and (iv) power and infrastructure regulations. |
| Box | Environment and Sanitation: communes will be responsible for water supply and distribution, waste collection and management; drainage system; public health safety; cemetery and public areas maintenance. |
| Box | Education: primary responsibilities of the communes in this sector will be limited to kindergarten and primary schools construction, operation and maintenance. |
| Box | Health, Social and Cultural Sectors: transferred responsibilities include construction operation and maintenance of public health, Cultural and Social Promotion Centers, as well as Youth and Sports Centers; social assistance to the poor within the commune. |
| Box | Economic and Commercial Services: communes will be specifically responsible for the construction, equipment, and maintenance of local markets and slaughterhouses facilities; but broadly, communes can initiate any activity and undertake investment to promote local development, tourism and industrial zones creation. |

Source: World Bank 2002a

Personnel transfers will be limited to staff of the current sous-préfectures and urban districts. Transfer of staff from deconcentrated offices to the communes is not mentioned in the new laws, despite the transfer of some of their current competencies. But communes will be able, if required, to ask the deconcentrated structures to provide them with support, which could well equate to secondment of civil servants to the communes.

Table 5 summarizes some of the key features of the decentralization model proposed for Benin, in terms of the degree of decentralization they represent. While the reforms fairly consistently describe a modest level of delegation of authority to the communes, real delegation will depend to a fair degree on the success of the public finance reforms, and civil service reform. As noted above, budget reform has not yet progressed beyond the central government; but for delegation to be effective, local government will need some ability to manage its financial resources, if only within the context of improved efficiency. Issues regarding staffing practices are discussed further in the next section.
<table>
<thead>
<tr>
<th></th>
<th>Political Features</th>
<th>Fiscal Features</th>
<th>Administrative Features</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Deconcentration</strong></td>
<td></td>
<td></td>
<td>• Staff in the deconcentrated areas of health and education will continue to be central civil servants.</td>
</tr>
<tr>
<td>(minimal)</td>
<td></td>
<td>• Service delivery for key functions – health, education and water (partially) will remain the responsibility of the central government</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• For delegated services, central government (through the préfet) will have strong oversight, authority to set standards, etc.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Staff in the deconcentrated areas of health and education will continue to be central civil servants.</td>
<td></td>
</tr>
<tr>
<td><strong>Delegation</strong></td>
<td>• Communes will be created, with locally elected councils, under the oversight of the préfet and accountable to the central government</td>
<td>• Expenditure responsibilities at the local level, although broad in scope, will be largely limited to investment activities</td>
<td>• Administrative staff of the sous-préfectures will be transferred to the communes, and will likely be governed by legislation paralleling the existing central government legislation. In addition, there may be the ability to borrow or second central staff from the DDs to perform certain functions.</td>
</tr>
<tr>
<td>(intermediate)</td>
<td></td>
<td>• Communes will depend heavily on central government transfers; they will receive a portion of the VAT, and a new development tax but these will represent only a minor portion of revenues</td>
<td>• There is also a semi-formal contracting system that has developed to counteract the existing rigidities in the civil service laws, and may provide communes with some limited degree of flexibility over staff.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Some minor local taxes (business and property) and fees will be available</td>
<td></td>
</tr>
<tr>
<td><strong>Devolution</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>(substantial)</td>
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</table>

**Staffing Practices**

In the case of Benin, the decentralization reforms have not yet been implemented and, as a result, some of the detail on how staff transfers will be managed and what the accountability relationships will be has yet to be worked out. Nevertheless, the following description provides the general framework, and raises some issues that will need to be resolved.

Under the new model of decentralization, administrative staff from the sous-préfectures will be transferred to the communes, and as such will be formally accountable to the elected council of the commune, and will be paid locally, through transfers from the center. However, these staff will not be sufficient to allow the communes to perform all of their delegated responsibilities. It is not clear how this gap will be managed, but there is a provision in the new laws that allow the communes to ask the central government for assistance in delivering their service responsibilities. This could be interpreted to mean that central government staff could be seconded to a commune or otherwise loaned. If this happens, however, it is not clear whether these seconded staff will formally report to the communes or whether they will still report to their permanent employer.
Staff (such as teachers and health care workers) providing services that are still central government responsibilities will, of course, still be employees of their respective ministries.

It is expected that transferred staff will be governed by separate territorial civil service legislation, paralleling the central government legislation. As such, it would carry the same provisions – and problems – that currently exist in the central government, including centrally determined salaries, inability to fire, and an automatic promotion system.

To help counteract this high degree of inflexibility, and to fill the gap in anticipated staffing needs, the communes may turn to the practice of hiring contract workers. This practice has been ongoing at the central and département levels in recent years, partially in response to a hiring freeze, as well as to the inherent staffing constraints. In particular, the use of two-year contracts has become common in the areas of health and education. Recruitment is by competitive examination, with one recruitment center in each département, and relevant DDs recruit their own contracts to work locally. Generally, these contacts are paid out of the national budget, and the contract terms and conditions are regulated. Although the practice adds needed staffing flexibility at the local level, there are risks of automatic renewals and poor qualifications, and for this reason should not be seen as a panacea. However, it can give local (and deconcentrated) government a staffing alternative in the absence of appropriate civil service reforms.

Lessons Learned

This case has been included here in part as an example of a country moving towards the first stages of decentralization, with the opportunity to identify in advance the potential obstacles to a successful process. While Benin is only moving to a limited form of delegation, it does not even have a workable model of deconcentration on which to build, in terms of staffing practices.

Regardless of whether services are being delivered through a deconcentrated or delegated model, management at the local level need the authority to assign staff where the need is greatest, and to sanction or fire staff for non-performance. In addition, they should be able to hire, or at least assess, staff based on merit principles.

In this case, the lack of progress on civil service reform will present a severe barrier to successful decentralization. The contracting model can be an alternative, but a temporary one at best. For one thing, the contracting model is being attacked by the public sector unions. But more importantly, it is at best only a substitute; there is a need for the formal system itself to change, likely through a negotiated process with the unions.
**India**

*Background*

India is a very large and complex country with states that are larger than most countries in the world. Since independence, there has been a desire in India for increased decentralization beyond the state level. However, early attempts were unsuccessful with the local forms of government suffering from bureaucratic and political resistance at the state level to share power and revenues, and from a lack of inadequate resources and capacity.

In 1992, statutory recognition of three tiers of local government was established with the 73rd and 74th Constitutional amendments. These amendments required each state to pass conformity laws creating both urban and rural local governments and assigning functions and sources of revenues. The state conformity acts were all in place by April 1994, one year after the amendments came into force. (World Bank 2000b) Implementation of this decentralization framework has been very slow, however, in part due to political reluctance on the part of the state governments, fiscal constraints, and an unsupportive bureaucracy.

*Description of the Decentralization Model*

There are two levels of sub-national government in India. In addition to the 28 state governments, there are over 250,000 local governments, of which about 3,000 are urban and the balance rural. (Rao 2000) There are three levels of rural local government – district panchayats, Taluk panchayats and village (gram) panchayats. There are similarly three types of urban local government – municipal corporations, municipalities and nagar panchayats in smaller towns.

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**Figure 3: Structure of Government in India**

<table>
<thead>
<tr>
<th>Central (federal) government</th>
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<tbody>
<tr>
<td>States (28)</td>
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<tr>
<td>Local rural bodies:</td>
</tr>
<tr>
<td>District panchayats</td>
</tr>
<tr>
<td>Taluk panchayats</td>
</tr>
<tr>
<td>Gram panchayats</td>
</tr>
<tr>
<td>Local urban bodies:</td>
</tr>
<tr>
<td>Municipal corporations</td>
</tr>
<tr>
<td>Municipalities</td>
</tr>
<tr>
<td>Nagar panchayats</td>
</tr>
</tbody>
</table>

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10 This assessment is primarily based on a review of experience in seven states (Andhra Pradesh, Karnataka, Kerala, Maharashtra, Madhya Pradesh, Rajasthan, and Uttar Pradesh). (World Bank 2000b) The experience in other provinces may be different.
In many of the states, local government laws treat panchayats as agents of the state government instead of self-governing bodies, and most states have retained the right to amend or withdraw functions. The state Conformity Acts that formally established local government recognized that there would be new contingencies that would have to be addressed in the future, and hence contain clauses that allow state governments to prescribe new rules without going through the legislative process. This contingency provision has given rise to a substantial body of rules (or delegated legislation) that emerge through government orders and in fact are the source of state control over panchayats. These clauses use language that allows the state to withdraw, curtail, extend and over-ride the authority of the panchayat raj system. The result of this has meant that decentralization to local government is more a form of delegation than devolution. (World Bank 2000b)

This level of state control over local government extends to the functions that are assigned to local government. The Constitutional amendments describe the roles and responsibilities of local governments; in particular, there is a list of 29 subjects for rural governments and 18 subjects for urban governments. However, these lists are in fact very general, indicative areas, and determination of the specific responsibilities and roles is left to the state governments. The provisions in the state Conformity Acts have meant that the extent of assignment of powers and functions varies widely depending on the willingness of each state government. (Rao 2000)

However, a listing of common functions performed by local governments is provided in Box 3.

Local governments’ own-source revenue is relatively small, particularly for rural areas. In the case of panchayats, own revenues make up an estimated 6-10 per cent of expenditures, the balance being funded by state transfers. For municipalities, the average is much larger, with own revenues averaging between 65 and 70 per cent. Except for municipal corporations, local governments have no borrowing powers. State transfers are mostly tied to specific purposes, with 80 per cent devoted to wages. (World Bank 2000b) In addition to grants for devolved functions, the State governments pass on funds for implementation of various centrally sponsored schemes to local governments. (Rao 2000)

To help states establish an appropriate fiscal framework for local government, the 73rd and 74th constitutional amendments provided for the setting up of a financial commission in each state to make recommendations regarding the devolution of expenditure responsibilities, tax powers, and the principles for determining grants-in-aid to local governments. Commissions have been established in all states, and they have made their reports; however, states are not obliged to accept them.

From an administrative perspective, local decision-making remains in the hands of the state bureaucracy. Some states are better than others. In a study done by the World Bank on rural decentralization focusing on experience in seven states, (World Bank 2000b) it was found that Maharashtra has devolved control over some staff in some sectors to the district panchayats – particularly primary education and primary health. In Kerala there is a dual control mechanism where sector staff report to both levels. In the other five states included in the study, panchayats had virtually no control over civil servants.
Box 3: Common Functions Performed by Local Governments in India

<table>
<thead>
<tr>
<th>Village Panchayat</th>
<th>Taluk Panchayat</th>
<th>District Panchayat</th>
<th>Urban Local Governments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Preparing annual plans.</td>
<td>1. Preparing annual plans and</td>
<td>1. Preparation of annual plan for the</td>
<td>1. Urban planning including town</td>
</tr>
<tr>
<td>2. Preparing and implementing annual budget.</td>
<td>consolidating the plans of village</td>
<td>district; consolidation of village and</td>
<td>planning.</td>
</tr>
<tr>
<td>3. Promotion of:</td>
<td>panchayats</td>
<td>Taluk Panchayat plans.</td>
<td>2. Regulation of land use and</td>
</tr>
<tr>
<td>Agriculture, horticulture, animal</td>
<td>2. Preparing annual budget.</td>
<td>2. Construction and maintenance of roads,</td>
<td>construction of buildings.</td>
</tr>
<tr>
<td>husbandry, poultry, dairying,</td>
<td>3. Promotion of agriculture, animal</td>
<td>buildings and bridges.</td>
<td>3. Construction and maintenance of roads and</td>
</tr>
<tr>
<td>fisheries, reforestation, cottage</td>
<td>husbandry, agricultural extension.</td>
<td></td>
<td>bridges.</td>
</tr>
<tr>
<td>industries,</td>
<td>4. Maintenance of irrigation works.</td>
<td></td>
<td>4. Water supply, sanitation public health, conservancy and</td>
</tr>
<tr>
<td>4. Provision of drinking water.</td>
<td>5. Rural water supply and sanitation.</td>
<td></td>
<td>solid waste management.</td>
</tr>
<tr>
<td>5. Distribution of house sites.</td>
<td>6. Social forestry.</td>
<td></td>
<td>5. Urban forestry and protection of environment.</td>
</tr>
<tr>
<td>poverty alleviation, social development and family</td>
<td>public roads and communication.</td>
<td></td>
<td>7. Formulation and implementation of urban</td>
</tr>
<tr>
<td>welfare,</td>
<td>8. Monitoring the implementation of various</td>
<td></td>
<td>poverty alleviation programs.</td>
</tr>
<tr>
<td>7. Promotion of adult literacy, ensuring school</td>
<td>programs and policies at</td>
<td></td>
<td>8. Provision of urban amenities, parks, gardens and</td>
</tr>
<tr>
<td>enrollment and attendance at primary level,</td>
<td>village levels,</td>
<td></td>
<td>playgrounds.</td>
</tr>
<tr>
<td>8. Rural water supply and sanitation.</td>
<td>9. Promotion of health, family welfare, development</td>
<td></td>
<td>9. Management of burial grounds,</td>
</tr>
<tr>
<td>9. Monitoring the functioning of public health</td>
<td>of women and children.</td>
<td></td>
<td>crematoriums.</td>
</tr>
<tr>
<td>centers.</td>
<td></td>
<td></td>
<td>10. Vital statistics on births and deaths.</td>
</tr>
<tr>
<td>10. Monitoring the public distribution system</td>
<td></td>
<td></td>
<td>Public amenities like street lighting, parking lots, bus</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>stops, and public conveniences.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>11. Regulation of slaughter houses and tanneries.</td>
</tr>
</tbody>
</table>

Table 6 summarizes some of the key features of India’s decentralization model. Generally, while local government has been established through the constitution, the states continue to exercise considerable control. While there are some states that have given local government more independence, in most cases states treat local governments like agents with delegated authority. Very few substantive functions or independent revenue sources have been devolved, and most staff continue to report to the state.

<table>
<thead>
<tr>
<th>Deconcentration (minimal)</th>
<th>Political Features</th>
<th>Fiscal Features</th>
<th>Administrative Features</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local governments are elected</td>
<td>• Despite the constitutional direction, few functions have actually been transferred to local government</td>
<td>• Local government receive transfers from the state, but most are tied to specific purposes, and almost 80 per cent for wages that go to staff who do not report to local governments.</td>
<td>• virtually all staff working at the local level on devolved functions are state civil servants</td>
</tr>
<tr>
<td>Although legislation varies somewhat in each state, generally states have considerable power to determine functions of local governments, as well as withdraw, curtail and override local authority.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Delegation (intermediate)</th>
<th>Political Features</th>
<th>Fiscal Features</th>
<th>Administrative Features</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local governments are elected</td>
<td>• Local governments receive transfers from the state, but most are tied to specific purposes, and almost 80 per cent for wages that go to staff who do not report to local governments.</td>
<td>• Some funds are flowed to local governments for the specific purpose of implementing centrally sponsored schemes.</td>
<td>• In some cases, there is dual reporting, administratively to the local council but technically to the state hierarchy</td>
</tr>
<tr>
<td>Although legislation varies somewhat in each state, generally states have considerable power to determine functions of local governments, as well as withdraw, curtail and override local authority.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Devolution (substantial)</th>
<th>Political Features</th>
<th>Fiscal Features</th>
<th>Administrative Features</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local governments do raise revenues, but for panchayats they account for only 5-10 per cent of spending. For municipalities the average is higher, at 65 to 70 per cent.</td>
<td></td>
<td>•</td>
<td></td>
</tr>
</tbody>
</table>

Staffing Practices

Virtually all staff working at the local level continue to be state employees. According to statute there is a formal reporting relationship with the locally elected bodies, but in practice staff continue to report through historical lines of authority, whether through the District Rural Development Agency (DRDA), or state sector departments. For example, DRDA directors are now called CEOs of the district panchayats, and interact much more with the district panchayats with regards to beneficiary selection for schemes; however, their roles and authorities have not changed. Sector technical staff continue to report to their old bosses. (World Bank 2000b)

There are some exceptions to this. As noted earlier, in Kerala gazetted staff are partially under the control of local panchayats through a dual control mechanism. In blocks and districts, officers of class 1 to 4 are supposed to report administratively to the panchayats (through the CEO of the level) and technically to their respective line departments at the district and state level. In Maharashtra staff of 29 departments have been transferred from line departments to the district panchayats. But all of these staff consider themselves to be civil servants on deputation to the district panchayats. The state government pays their salaries and they report to the line departments on technical matters. (World Bank 2000b)
Elected heads of local government in some instances can provide comments on the employee’s annual performance review, and can request transfers, but to a large degree locally elected bodies have no authority over state employees working in the local government (for example, hiring or firing). Box 4 summarizes the staffing practices for functions devolved to local government.

**Box 4: Local Government Staffing Practices in India: Key Features**

- **Employer:** staff performing devolved functions continue to be employees of the state
- **Reporting relationship:** formally to local elected bodies; in practice through historical reporting lines
- **Ability to hire, fire, assess performance:** virtually no authority to hire or fire; in some cases comments can be added to staff annual reviews
- **Local Civil Service Commission:** none
- **Pay scales:** determined by state governments
- **Setting establishment ceilings, staffing norms:** Determined by state governments (reflecting the fact that very few functions have been decentralized, and for those that have, policy and administrative parameters continue to be managed by state departments.)
- **Payroll management:** In many cases, employees are paid by local government units, but through specific grants from the state specifically for salary purposes. In the case of personnel working in schools and primary health facilities, salaries are directly payable by the appropriate state department.

**Lessons Learned**

Compared to the other case studies, there appears to be a significant divergence between the formal model of decentralization as laid out in the constitutional amendments and supporting state legislation, and the reality. This is documented in some detail in a World Bank on rural decentralization in seven Indian states (World Bank 2000b). Based on these findings, very few functions have been devolved, local governments have little or no authority over decentralized provincial staff, and at best present a model of (limited) delegated authority.

Although the extent of decentralization in India beyond the state level is generally very low, there is some variation. In particular, Kerala is noted as taking significant steps towards decentralization, with 35 per cent of expenditure devolved to local government in that state. (World Bank 2000b) In terms of staff reporting relationships, staff in Kerala do report to the senior district politician, but as a result, the government of Kerala has had considerable difficulty keeping the positions filled.

Although the lack of local control over staff delivering devolved functions has certainly contributed to the low level of effective decentralization in India, it appears to be a symptom of a more fundamental issue, which is the reluctance of most states to give up authority. This reluctance is manifested in legislation that allows the state to retain considerable authority, and in actual delegation of only a very limited number of functions and revenue sources. Reinforcing this control through staff assigned to deliver these functions is therefore not surprising, and in fact, consistent. No doubt, the natural tendency of staff to retain their status within the state hierarchy has been a factor, but certainly not the only one.
Indonesia

Background

Following the highly centralized, 32-year rule by President Suharto, strong calls for greater regional autonomy led the national (unitary) government in Indonesia to adopt a policy of decentralization. In fact, decentralization quickly became a matter of national urgency to avoid the potential for national disintegration. In 1998 the highest legislative body, the People’s Consultative Assembly, issued a decision instructing the government to move ahead quickly on decentralization. (Asia Research Center 2001)

In 1999, a sweeping plan for decentralization was enacted through the approval of two laws: No. 22 on regional government and No. 25 on regional fiscal balance, both with implementation beginning January 1, 2001. Following approval of these laws, both national and regional elections were held in the same year. For the first time in 40 years, local assemblies at the provincial and district levels were democratically elected.

Indonesia has adopted the ‘big bang’ approach to decentralization, moving quickly to transfer roughly 2.1 million civil servants to provincial and (primarily) district governments. By the end of September 2001, the transfer of these civil servants, along with facilities and archives, was largely completed. In total, 239 provincial level offices of the central government, 3,933 district/city level offices, and over 16,000 implementing units were handed over to the provinces, districts and cities. Most of the staff affected by these transfers simply moved from one office to another within the same city, as much of the government’s service delivery had already been deconcentrated. (World Bank 2001b)

Description of the Decentralization Model

Law No. 22 establishes regional government in Indonesia. Through the law, political autonomy is focused at the district and municipal level. Local administration is now accountable to elected local councils rather than to the Ministry of Home Affairs. Provinces, on the other hand, continue to be accountable to the central government through the nationally appointed governor. Within districts and municipalities there are sub-districts, which are smaller administrative government units. Each sub-district is further divided into villages. (Usman 2001)

The devolution of functions is fairly sweeping. The law specifies central government powers over key national functions such as defense, the judiciary, foreign relations and the monetary and fiscal system, and devolves responsibility over everything else to sub-national government, and primarily the districts. Thus the districts have become responsible for most services that affect people directly, including urban services, primary and secondary education, public and basic health services, environmental management, planning and local economic development. In addition, districts and municipalities continue to carry out ‘co-governance’ tasks under the authority of the central government, along with its financial and related support. (Asia Research Center 2001)

Provinces have a more minor role, providing coordination and filling in for districts that are not able to fulfill their mandates. The provinces will also continue to perform certain deconcentrated central tasks and, along with central ministries, set standards for service delivery at the district level.
Law No. 22 also establishes an intergovernmental regional autonomy advisory board with representatives from the center and regions to advise the President on issues concerning decentralization. (World Bank 2001a)

In order to carry out the devolved functions, most of the implementing capacities of the central government have been transferred to local government, along with full control over personnel and organization structures.

**Figure 4: Structure of Government in Indonesia**

![Diagram showing the structure of government in Indonesia]

Law No. 25 lays out the intergovernmental fiscal relationships. Over 90 per cent of local revenues is in the form of transfers from the central government. (World Bank 2002b) Law 25 stipulates that a minimum of 25 per cent of domestic revenues be transferred. In addition to this amount, there is an equalization mechanism. These transfers are unconditional.

Some districts also benefit from shared resource revenues, which are retained by the producing localities, the host provincial government and other relevant local administration. (Asia Research Center 2001) To strengthen local own source revenues, the central government has revised Law No. 18/1997 on regional taxes and levies. The revised law allows regions to establish taxes as long as they obey certain principles. (World Bank 2001a)

Regional governments will also be allowed to borrow, but borrowing will be limited by a formula based on total debt, and by requiring Ministry of Finance approval for foreign loans (but without central government guarantee). Central government also retains the right to put further limits on regional borrowing. (World Bank 2001a)
Table 7 summarizes some of the key features of Indonesia’s approach to decentralization. The Indonesian government has taken a radical approach to decentralization, in terms of scope, degree of local autonomy, and speed. While there remains significant oversight and coordination from the center, the reforms have moved the country a significant degree towards devolution. Observers have acknowledged that the transition has gone surprisingly well; however, there remain significant issues to be addressed, including issues dealing with the transfer of staff, which are discussed in the next section. (World Bank 2002b)

<table>
<thead>
<tr>
<th>Deconcentration (minimal)</th>
<th>Political Features</th>
<th>Fiscal Features</th>
<th>Administrative Features</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delegation (intermediate)</td>
<td>• Although provincial governments are elected, they play a minor role, and continue to perform certain tasks on behalf of the central government</td>
<td>• Provinces can set standards for service delivery at the regional level, on behalf of the central government.</td>
<td>• Provincial governments can have a role in supervising the implementation on employment administration; however much of the specifics are still to be worked out. • The national civil service agency is drafting guidelines on job classifications and qualification • Wage rates are set centrally</td>
</tr>
<tr>
<td>Devolution (substantial)</td>
<td>• District and municipal level governments are elected, and autonomous from the central government.</td>
<td>• Regional governments are able to set their own priorities within the context of centrally established minimum standards. • Regional governments raise about 7 per cent of revenues locally • The balance of revenues comes from transfers from the central government in the form of a general, unconditional grant (65 per cent of total revenues) based on both fiscal needs and fiscal capacity, shared taxes and natural resource revenues.</td>
<td>• Staff who perform regional government functions are employees of the regional government, who have authority to hire, fire, transfer, promote, etc.</td>
</tr>
</tbody>
</table>

**Staffing Practices**

As noted above, 2.1 million staff performing devolved functions have been transferred to regional governments, primarily to the districts. The transfer of staff was done in two phases. In the first, the personnel of 5 departments, totally 150,000 staff, were transferred in 2000. The balance of staff, in 9 additional departments, were transferred in the second phase at the beginning of 2001. However, few of those transferred actually had to move, as the central government apparatus was already highly deconcentrated. As of 2001, there were some 2.6 million regional civil servants, and some 1.3 million central civil servants left. (World Bank 2002b)
The transferred staff are now formally employed by the regional governments who, according to Law No. 22, have the authority to hire and fire, transfer, promote etc. However, much of the specifics about how employment will be managed have yet to be sorted out. Law No. 22 also gives provincial governments a role in supervising the implementation of employment administration, although it is still not clear what this means. New regulations have been created that regulate hiring procedures, requiring nationwide advertising for some posts and local advertising for others. In addition, the national civil service agency is drafting guidelines on job classifications and qualifications that it wants to see applied at the local level, and some sector ministries are drafting similar guidelines. These directives will have a significant impact on the regional government’s flexibility in managing staff. While the regional head has the right to determine overall establishment levels, other regulations – including a ‘zero growth’ policy apparently enforced sector by sector – restrict the region’s ability to adjust its workforce according to need. The central civil service training agency also retains its monopoly on mandatory training for the highest civil service ranks. (World Bank 2002b)

Box 5: Local Government Staffing Practices in Indonesia: Key Features

<table>
<thead>
<tr>
<th>Feature</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employer</td>
<td>Regional government (primarily districts).</td>
</tr>
<tr>
<td>Reporting relationship</td>
<td>To locally elected bodies.</td>
</tr>
<tr>
<td>Ability to hire, fire, assess performance</td>
<td>This authority rests with the local government; however, the central</td>
</tr>
<tr>
<td></td>
<td>government is moving to regulate hiring procedures, for example. In</td>
</tr>
<tr>
<td></td>
<td>addition, the provinces have the authority to supervise the</td>
</tr>
<tr>
<td></td>
<td>implementation of employment</td>
</tr>
<tr>
<td>Local Civil Service Commission</td>
<td>Presidential decree 159/2000 sets the authority to establish civil</td>
</tr>
<tr>
<td></td>
<td>service agencies, however it is not clear that any have been</td>
</tr>
<tr>
<td></td>
<td>established yet. Standards for recruitment and other employment</td>
</tr>
<tr>
<td></td>
<td>policies are to be set by the central civil service commission.</td>
</tr>
<tr>
<td>Pay scales</td>
<td>Wage rates (including base wage, position allowances and family and</td>
</tr>
<tr>
<td></td>
<td>rice allowances) are set centrally. In fact, during the year of</td>
</tr>
<tr>
<td></td>
<td>transfer, the central government awarded a significant pay increase</td>
</tr>
<tr>
<td></td>
<td>that was not factored into the calculation of grant transfers.</td>
</tr>
<tr>
<td>Setting establishment ceilings, staffing</td>
<td>Central ministries (and provinces) have the responsibility to set</td>
</tr>
<tr>
<td>norms</td>
<td>delivery standards and norms. The head of the region has the authority</td>
</tr>
<tr>
<td></td>
<td>to determine the number of civil servants in the region (government</td>
</tr>
<tr>
<td></td>
<td>regulation 97/2000).</td>
</tr>
<tr>
<td>Payroll management</td>
<td>Payroll management has been transferred to regional government. The</td>
</tr>
<tr>
<td></td>
<td>central government continued to pay the salaries of devolved staff for</td>
</tr>
<tr>
<td></td>
<td>5 months following transfer, and deduct the amount from the calculation</td>
</tr>
<tr>
<td></td>
<td>of the general grant transfer. This measure helped considerably in</td>
</tr>
<tr>
<td></td>
<td>reducing some of the expected transition problems.</td>
</tr>
</tbody>
</table>

While there are clear advantages to some standardization of staffing practices across local government, some flexibility in standards and working conditions, as well as pay, can make a significant difference in achieving a successful decentralization model. Having gained considerable experience over the last two years, it may be time for Indonesia to review the range of regulations in this area, and formulate a unified framework to regulate local staffing practices in a consistent fashion.

Another issue arising from the transfer process, which is a major concern among transferred civil servants, is the fact that the change in status has limited their inter-regional mobility. This concern exists partly because these staff are no longer part of a central civil service, but also because of concerns that some local governments are discriminating on grounds other than professional. There have been many reports of regional, ethnic and special interests affecting decision-making by regional governments at the expense of wider priorities. For instance, many
regions have been reluctant to take staff from other regions, and in some cases officials without the appropriate background have been placed in a post because of their ethnic identity. These dynamics affect the distribution of staff and the professionalism of government administration. (Asia Research Center 2001)

In addition, because the size of grant has been inadequate for many regions, and confusion continues over what functions regions must perform, there is considerable pressure to reduce the number of staff, or to not accept all devolved staff. In some cases, there have been significant delays in assigning devolved staff to specific posts. The first Indonesia Rapid Decentralization Appraisal (IRDA) report cites the need for better mechanisms to ensure hiring is based on merit and competence and to provide transparency and objectivity in the hiring process for the local bureaucracy. (Asia Foundation 2002)

Some regions have tackled the issue of excess staff more rationally. For instance, Yogyakarta, which saw an additional influx of civil servants during the transition in 2001, has started a civil service reform with many commendable features. The provincial government reviewed its functions, organization, and staffing, and on that basis decided on the structural staffing needs for government. The significant numbers of excess civil servants have been offered a flexible severance package, including access to training or a grant to start a business. Other regions, however, still struggle with overstaffing and civil service management issues. (World Bank 2002b)

An outstanding issue continues to be responsibility for civil service pensions. Until now it has been the central government that paid, but for future hires responsibility will shift to the regions. How this will be done, and how the pensions will be managed is one of the keys for future mobility of civil servants among the regions. (World Bank 2001b)

Lessons Learned

Decentralization in Indonesia has been both rapid and extensive. Among other things, it has involved the transfer of over 2 million staff in a remarkably short timeframe. And service delivery has not been significantly disrupted.

Not surprisingly, a number of issues are surfacing which will likely require adjustments to the enabling legislation or other legal frameworks. For example, greater clarity is needed on what functions are being assumed by local governments, and what level of transfers is adequate. The government is beginning to address this by asking local governments to ‘acknowledge’ what services they have assumed.

On the staffing front, tensions between the independence of local governments as employer and the desire to impose central standards on hiring practices and other conditions of employment need to be addressed through a careful review of existing regulations, possibly moving to an overarching law covering the local civil service. This review should keep in mind the principles of equity and access across regions, adequate flexibility to meet each region’s obligations, and appropriate staff protections to ensure the retention and development of a professional civil service.

However, these are not issues that necessarily question the overall thrust of the reforms. It appears from this brief review that the degrees of decentralization at the political, fiscal and staffing levels are consistent with each other. It is more a question of adjusting to the experience, and fixing the more glaring problems.
To help the government identify problems as they arise, the Asia Foundation has launched a process of Rapid Decentralization Appraisals (IRDA). The first appraisal was conducted between November 2001 and February 2002, and involved surveys in four cities and eight kabupatens in 13 provinces. The appraisal examined issues related to the devolution of personnel, assets and reorganization of local government institutions, fiscal decentralization, public services, transparency, accountability and civil participation, inter-governmental relations, and the understanding of the concept of regional autonomy. (Asia Foundation 200) How this information will be used is not clear yet. Nevertheless, this mechanism offers an important feedback mechanism for decision-makers.

The pace of reform raises a different question. Could many of the problems faced in Indonesia have been avoided by taking more time to plan, together with a longer transition period? To some degree, the answer must be yes. But at what cost? Indonesia’s decentralization, as in so many other countries, has been largely driven by political needs. Delay could have resulted in significant political implications. Conversely, delay can result in a lost opportunity if the political support for decentralization abates. Ultimately, there is no right answer to this question. The pragmatic approach would be to plan to the extent you are able, draw on lessons from other countries, and once you begin, learn and adjust from the experience.
Mexico

Background

Historically, Mexico has been characterized by strong centralized government dominated by a single political party; in fact, the Partido Revolucionario Institucional (PRI) had been in power for the 71 years since Mexico’s independence, until it was finally defeated in the Presidential elections of 2000. It was only as recently as the 1980s and 1990s that the political opposition began to strengthen. Eventually, elections in a number of states were being won by opposition parties and by 1997, 28 per cent of municipalities were also controlled by the opposition. With this steady growth in multi-party politics, the demand for increased decentralization grew.

The first wave of decentralization occurred in the late 1980s and early 1990s. During this period, states were delegated some spending and management responsibilities, but the federal government maintained tight control over spending priorities through the use of earmarked and conditional grants. The federal government did not devolve any taxing authority. The second wave of decentralization began after 1997. This period brought with it some new taxing authority for the states and a significant loosening of control over transfers, along with a further increase in responsibility.

The process of decentralization in Mexico has not been a coordinated, government-wide approach, as in many other countries. Instead, decentralization has occurred on a sector-by-sector basis, and by unilateral decisions of the federal government. Because of this sector-by-sector approach, without an overarching strategy, the need for improved coordination and consensus building among parties has been apparent. In response, in 2000 the Mexican government established a Decentralization Committee to coordinate intergovernmental relations, along with a supporting technical secretariat. The secretariat is responsible for the technical analysis of the decentralization process, to help guide federal policy.

Figure 5: Structure of Government in Mexico

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Except where noted, this case study draws heavily on Giugale and Webb 2000.
Description of the Decentralization Model

Mexico is a federal state, with 32 states and over 2,400 municipalities.

The broad assignment of responsibilities among the three levels of government is: health and education to the states; local streets and sanitation to the municipalities; and, everything else to the federal government. However, there are significant concurrent responsibilities, and as a result specific activities like maintenance, regulation and inspection are not adequately addressed at any level. Responsibilities are particularly poorly defined for roads, water and higher education. For those functions that have been decentralized, the federal government tends to play a significant role in policy design and financing, while the states, and to a less extent municipalities, tend to take the lead for implementation and delivery.

The bulk of revenues for both states and municipalities come from two forms of federal transfers. The first are participaciones, which originally were revenues of states and municipalities that were delegated to the central government, but now are redistributed back. However, the formula for distribution has evolved over time; it is now determined by the federal government, and more closely resembles a general revenue-sharing transfer than true tax sharing. These transfers are covered under Ramo 28 (‘ramo’ refers to a section in the budget). The second type is aportaciones, which are earmarked transfers for specific responsibilities transferred to the states and municipalities (for example, education and health). These transfers are covered under Ramo 33. There are also some important transfers within the budgets of sector ministries, usually matching funds under state-by-state agreements.

For the states, about half of all transfers are earmarked under Ramo 33. Furthermore, part of the so called unconditional funds under Ramo 28 in fact have to be used to match funds from other federal programs, or to pay for federally mandated salaries not covered by Ramo 33. As a result, most transfers to states are controlled by federal policy.

For municipalities, on the other hand, a little over half of federal transfers are unconditional revenue shares, and more than half of the rest (Ramo 33) are also unconditional. In fact, with the introduction of Ramo 33 transfers to municipalities, many municipalities have seen their resources increase three- to five-fold. In an effort to prevent mismanagement, many states have introduced state-level criteria for the control of these transfers.

Table 8 summarizes the key features of decentralization in Mexico. The degree of control by the federal government over decentralized functions through the use of financial conditions, as well as the setting of policy norms and standards, have effectively reduced a politically devolved sub-national structure to one that is more accurately described as one of delegation. Staff who deliver these decentralized functions – specifically health and education at the state level – are state employees, but many of their terms and conditions of employment are similarly controlled at the federal level. The next section discusses staffing in more detail.
Table 8: Key Features Affecting the Degree of Decentralization in Mexico

<table>
<thead>
<tr>
<th>Deconcentration (minimal)</th>
<th>Political Features</th>
<th>Fiscal Features</th>
<th>Administrative Features</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delegation (intermediate)</td>
<td></td>
<td>● Education and health responsibilities have been decentralized to the state level, but most funding comes through earmarked and conditional transfers from the central government.</td>
<td>● Staff are employees of the state and local government, but salaries and conditions of work are set nationally, and in the case of health and education, through negotiations with the sector unions.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>● There are some minor revenues levied locally</td>
<td>● States can hire and fire, but only within the framework established nationally.</td>
</tr>
<tr>
<td>Devolution (substantial)</td>
<td>● The state and municipal governments are democratically elected and are accountable to their electorate.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Staffing Practices**

Although employees in education and health were transferred to the state governments as part of the decentralization process, and are therefore employees of the state, the federal government (along with the sector unions) still has significant control. Specifically, it is the federal government that bargains with the unions, setting pay and other working conditions. States do have the authority to hire and fire, but with limitations.

**Box 6: Staffing Practices for Functions Devolved to the State Level in Mexico: Key Features**

- **Employer:** State government
- **Reporting relationship:** State government
- **Ability to hire, fire, assess performance:** The states have the authority to hire, fire and assess performance, within the context of conditions set out in federally negotiated bargaining agreements
- **Local Civil Service Commission:** None.
- **Pay scales:** Set at the federal level through negotiations with the sector unions.
- **Setting establishment ceilings, staffing norms:** States do have the ability to set establishment ceilings, within the conditions established in federally negotiated bargaining agreements
- **Payroll management:** Payroll is managed at the state level, but funding comes from the central government in the form of earmarked transfers.

Given Mexico’s sector-by-sector approach to decentralization, it is useful to look at the different approaches taken in the two major sectors that have been decentralized to the state level.

**Education**

The process of decentralization in education began in 1992 with the National Agreement to Modernize Basic Education, signed by the federal government, the state governments and the National Union of Workers in Education. Under the agreement, the central government remains in charge of setting standards, developing curricula and teaching programs, training teachers, producing most textbooks, and evaluating and monitoring performance. As noted earlier, financing is provided to states in the form of transfers earmarked for specific purposes. In fact, the distribution of actual decision-making between state and federal levels has changed little since
decentralization began. The most apparent result of decentralization is that some of the deconcentrated offices of the Ministry of Public Education have been replaced by state agencies.

The teachers’ union accepted the 1992 agreement because the federal government bundled the decentralization policy with increases in wages for teachers, economic incentives to improve quality of instruction, and new schemes to promote upward mobility. For example, the newly derived incentive system rewards teachers who (1) have all their professional qualifications, (2) demonstrate superior classroom performance, (3) attend in-service training courses or acquire other diplomas, (4) show good relationships with other teachers, parents and students, and (5) have seniority. These material rewards range from 27 per cent to 224 per cent of basic salary, and accrue for retirement. On average, they earn more than 450 days of salary per year in exchange for 200 four-hour days in front of a classroom. (Ornelas 2000)

The Agreement states that wages would be set separately in state and federal education sub-systems. In practice, however, wages in the federal system, negotiated with the federal union, set the wage level for all states to follow in their negotiations with state unions. Thus, the Agreement effectively unified salaries in both systems, and across the country.

The fact that pay scales are set nationally is becoming increasingly problematic in Mexico. In areas with strong international links, established pay rates are too low to attract qualified teachers, and in some isolated areas there is difficulty in attracting teachers even though salaries are higher than average local private sector salaries. Either federal funding will be needed to boost salaries, or states will have to raise more revenues locally to supplement the national minimum standard. Doing so, however, will require the unions to be willing to negotiate salaries locally.

Health
Health care decentralization began in earnest in the mid-1990s. To coordinate the reform, the National Health Council was created in 1995, with representation from all state and federal governments. Its functions include negotiation, dialogue and conflict resolution along with coordination of reforms.

The reform created new agencies in the states called public decentralization units (OPDs). During the decentralization process, all federal employees were transferred to the OPDs as state employees and all state personnel were brought up to the pay levels of federal employees. The federal government paid the financial costs of this policy. These OPDs are part of the state health budget and have considerable autonomy for allocating current resources in primary and secondary care. The OPDs report to the state health ministry on the allocation of resources and results, and in turn, the ministry reports to the state congress and to the federal ministry of Health.

Municipalities
While the focus of this case has been on the decentralization of responsibilities to the provincial government, some mention of municipalities should be made. Although many municipalities are ready to play a more significant role in the delivery of services, many more are not. In many municipalities, the entire staff is replaced every three years with new elections. The negative impact of this institutional feature of Mexican public governance cannot be exaggerated. In many countries this issue has been addressed by separating elected officials from technical staff, with the latter being made part of a professional, permanent civil service. Reform in this area is critical if any meaningful decentralization is to occur at this level.

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12 Some states had developed their own education systems prior to decentralization.
Lessons Learned

Decentralization in Mexico to the provincial level offers both good and bad experiences. In the case of education, little has changed; there continues to be significant federal (and union) control over provincial action, and where education was delivered by some provinces prior to decentralization, it has been argued that those provinces now have less control than they did. Health has fared better, in part because there was a concerned effort to coordinate the process. The National Health Council has been credited with much of the success.

Further benefits would be gained if the federal government could clarify sectoral responsibilities between levels of government, and coordinate responsibilities for investment and maintenance, and for hiring and salaries. The federal government could support states by encouraging them to adapt salaries and staffing to local conditions of demand for both teachers and health personnel. This is already being done in Oaxaca for low-income areas and could be expanded to other states. States with an adequate tax base and extra demand for education could be allowed to raise teachers’ pay above the national level, covering the extra cost with their own taxes. They could also undertake initiatives in the areas of performance indicators, pay, promotion, and incentives for improving public sector management.
Pakistan

Background

Since achieving independence in 1947, Pakistan’s government has operated as a highly centralized political and fiscal system, with a federal government and four provinces, as well as administrative divisions and districts. This centralization is widely regarded as a major factor in its poor record of economic growth, poverty reduction, and social progress. (World Bank 2002c)

Since independence, the country has gone through considerable political upheaval. A new constitution, establishing an Islamic republic, was adopted in 1956. The constitution was subsequently revised several times before being suspended in 1977, and restored with amendments in 1985. Between 1988 and 1999, Pakistan had gone through 7 governments; in 1999 the Constitution was suspended again, after a military coup led by General Musharraf. (Brillantes and Cuachon 2002)

General Musharraf’s administration is committed to establishing democracy at the three levels of government (federal, provincial and local). However, his first priority has been to focus at the local level. His devolution plan is one of seven main objectives of his administration that he announced in October 17, 1999. Implementation is being lead by the National Bureau of Reconstruction.

Figure 6: Structure of Government in Pakistan

As the first phase of the decentralization plan, three new levels of locally elected government (districts, Tehsils, and union councils) have replaced the former system of sub-national (deconcentrated) government, with the promulgation of a Local Government Ordinance in each of the four provinces. (Note that provincial governors are still appointed by the federal government, but in practice they are able to exercise their powers to dismiss the provincial assembly or to refuse to sign provincial legislation very sparingly and thus, except in periods...
when the constitution has been suspended, the provinces are a fully devolved and constitutionally autonomous level of government). Local elections were completed in September 2001. There has been some fiscal decentralization but much remains to be done in this area and very particularly in relation to administrative decentralization.

Description of the Decentralization Model

The new decentralized structure involves three sets of locally elected government:
- 97 districts (and 4 city districts)
- 306 tehsil governments (and 29 city towns), and
- 6022 union councils (Charlton, Cyan et al, 2004).

Local government is responsible for delivering services in a number of areas, as shown in Box 7. It shows that districts are mainly responsible for human capital related services, in particular education and health, while the tehsils and, to a lesser extent the union councils, are responsible for the provision of typical municipal services, such as roads, water and sewage. (World Bank 2002d)

<table>
<thead>
<tr>
<th>District</th>
<th>Tehsil</th>
<th>Union Council</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary and secondary education, Literacy</td>
<td>Local roads and streets</td>
<td>Local streets</td>
</tr>
<tr>
<td>Dispensaries and local hospitals</td>
<td>Water supply systems</td>
<td>Wells and Ponds</td>
</tr>
<tr>
<td>District roads</td>
<td>Sewers and Sanitation</td>
<td>Parks playgrounds</td>
</tr>
<tr>
<td></td>
<td>Fire services</td>
<td>Cattle pounds and grazing areas</td>
</tr>
<tr>
<td></td>
<td>Parks playgrounds</td>
<td>Libraries</td>
</tr>
<tr>
<td></td>
<td>Slaughterhouses, Fairs</td>
<td>Street lighting</td>
</tr>
<tr>
<td></td>
<td>Fairs, cultural events</td>
<td>Register births and deaths</td>
</tr>
<tr>
<td></td>
<td>Street lighting, signals</td>
<td></td>
</tr>
</tbody>
</table>


All provinces have now established Provincial Finance Commissions (PFCs), which according to the establishing legislation, is to evolve a formula for distribution of the divisible pool of resources, including distribution of the proceeds of the Provincial Consolidated Fund, between the provincial government and the local governments.

What constitutes a divisible pool for allocation of local share varies somewhat across provinces, with the general practice that the provinces exclude significant amounts (labeled obligatory expenditures) from the Provincial Consolidated Fund before determining the local share. Of the amount that should be transferred¹³, less that 25 per cent is based on a formula. Population is the most important indicator used in all provincial formula-based awards. A backwardness index is used by three of the four provinces, and the two largest provinces incorporate tax-effort provisions. (Charlton, Cyan, et al, 2004)

Different provinces have taken different routes to fund tehsil and union administrations, but they have been largely financed out of Goods and Services Tax revenues in addition to their own-source revenues. The only exceptions have been the salary grants for public health and

¹³ In fact, the formula-based proportion of actual transfers ranges from 71 percent (NWFP) to 17 percent Punjab. However, this is somewhat misleading as NWFP and Sindh do not, formally, transfer funds for salaries. If the proportion is taken from the mandated transfers, then all provinces come in at less than 25 percent. (Charlton, Cyan, et al, 2004)
engineering employees in Punjab and Sindh and discretionary specific purpose grants (Charlton, Cyan et al, 2004).

In the initial year of devolution, in all the four provinces the budget was prepared by the provincial Finance Department and sent to the districts for adoption. For example, in Bahawalpur the district government had no time to go through the 2001–02 budget. The Finance Department allowed only 5 days to examine and pass the budget, leaving district authorities no choice but to adopt this budget without amendment. By 2003–04, all districts had prepared their own budgets and enhanced powers of reappropriation and reallocation at the local level allow governments to reprioritize between different heads of expenditure where necessary. However, in practice, the districts and TMAs retain very little room for maneuver in making or amending their budgets. Despite the very few statutory limitations on the local governments, a plethora of notifications, instructions and operational practices allow provincial Departments of Finance to reach deeply into the local budget-making process. For example, NWFP in June 2002 prescribed targets for apportioning development funds among sectors, Punjab in June 2003 notified minimum proportions for maintenance and repair allocations, while Sindh exercised control over development shares by centralizing stage-by-stage disbursement of funds for schemes.

Despite the many rigidities and the extensive earmarking of recurrent budget funds and the equally frequent capacity problems, ownership of the budget process is increasing.

The National Reconstruction Bureau has set out a detailed framework for administrative decentralization, such that the structure of district government is fairly standard within and between provinces. The district administrations are headed by a District Coordinating Officer (DCO) who reports to the Nazim (district political head). Below the DCO is a structure of 10 to 12 Executive District Officers (EDO), who report to the DCO and are each responsible for a particular sector.

Table 9: Key Features Affecting the Degree of Decentralization in Pakistan

<table>
<thead>
<tr>
<th></th>
<th>Political Features</th>
<th>Fiscal Features</th>
<th>Administrative Features</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Deconcentration</strong></td>
<td>(minimal)</td>
<td>(minimal)</td>
<td>(minimal)</td>
</tr>
<tr>
<td>Delegation</td>
<td>(intermediate)</td>
<td>(intermediate)</td>
<td>(intermediate)</td>
</tr>
<tr>
<td></td>
<td>Provincial governors are still appointed by</td>
<td>Virtually all funding to local governments comes in the form of provincial transfers; but as formula-based transfers represent a small proportion of the total, there is still considerable discretion.</td>
<td>Administrative structures are standard across all districts. Senior staff continue to be provincial employees; these staff report to the head locally elected official, but the ability to hire and fire them remains with the province.</td>
</tr>
<tr>
<td>Devolution</td>
<td>(substantial)</td>
<td></td>
<td>Some appointment, promotion and transfer authorities have been given to the districts.</td>
</tr>
<tr>
<td></td>
<td>The provinces formally represent an autonomous level of government</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>The three levels of local government all have locally elected councils that are accountable to the local electorate.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 9 summarizes the key features of decentralization as it has occurred in Pakistan. While the political structures have been put in place, fiscal and administrative decentralization is still in
transition. However, the structures that have been established describe a very controlled approach, with substantial provincial oversight.

**Staffing Practices**

From a staffing point of view, the changes are still evolving. With some exceptions, civil servants performing devolved services continue in strict legal terms to be provincial employees. (World Bank 2002c)

Provincial staff have been ‘mapped’ on to district governments by the provincial Local Government departments. The DCO position has been filled based on a 1993 agreement between the federal and provincial governments. Below the DCO, senior staff continue to be provincial civil servants. Lower level employees will eventually be formally transferred to the districts and into separate district cadres, and the current arrangements are an intermediate step with many of these authorities delegated to the districts but with clear opportunity for provincial interference. According to the Local Government Ordinance 2001 (Government of Pakistan 2001), senior staff will continue to be provincial civil servants. Similarly, tehsil governments will be staffed by a combination of provincial, district and tehsil cadres. Union councils will be staffed with provincial and union council cadres. (Manning, 2001) For most staff affected by devolution, there has been minimal geographical dislocation, as generally staff have moved from a deconcentrated provincial office to a district office, within their place of residence.

### Box 8: Local Government Staffing Practices in Pakistan: Key Features

- **Employer:** For staff involved in delivering decentralized services, the employer continues to be the provincial government (and in some cases federal government). The exception to this has been the creation of district cadres for education and health.
- **Reporting relationship:** Staff report (through the District Coordinating Officer) to the local government’s political head.
- **Ability to hire, fire, assess performance:** Authority to hire and fire rests with the employer, which in many cases is the provincial government. This authority will transfer to districts when district cadres have been created.
- **Local Civil Service Commission:** Since most staff associated with devolved functions continue to be provincial civil servants, no district-level civil service commissions have been established.
- **Pay scales:** Established by the provincial government but effectively determined by the federal government.
- **Setting establishment ceilings, staffing norms:** Determined by provinces. Once budget responsibilities have been further decentralized, districts should have more control over establishment ceilings.
- **Payroll management:** Payroll management is decentralized based on the previous deconcentrated structure. For two provinces, payroll continues to be paid by the provinces out of the district budget.

The transfer of funds for paying staff from district budgets has been a particular problem within Pakistan. In Sindh and NWFP, salaries are still paid from provincial Account I rather than the district-controlled Account IV. The districts must seek approval from the province for the release of the funds for their salary payments. Thus, for most staff the salaries effectively are still paid from the provincial budget. This means that the largest part of the budget is outside of the control of the district government – and very particularly, they have no ability to reallocate resources or

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14 Under this agreement, quotas have been established distributing DCO posts between federal and provincial civil servants, but actual postings are the responsibility of the provincial government. (Manning 2001)
to change the composition of the workforce. Once salary budgets are paid through Account IV, the districts would be able to select more of one type of staff or skill and less of another. In practice, the provinces may retain control over the creation of new positions – but at the least the districts would be empowered to reallocate any staffing savings. The Government of Punjab has begun working on this issue.

As responsibility for budgets is more fully transferred to the district governments, they will be able to determine their own establishments and, within the limits of the Local Government Ordinances, adjust their own organizational structures. In addition, recruitment and discipline for the district cadres will become the responsibility of the district government, with the possibility that district service commissions and district service tribunals will be established to oversee recruitment and discipline respectively. However, pay policy will not be devolved to the district governments or other lower tiers. (Manning 2001)

Lessons Learned

Decentralization in Pakistan is still in its early stages. While political devolution has been achieved, fiscal and administrative centralization still has a long way to go. For decentralization to succeed, as it has been envisaged in Pakistan, local governments need to be empowered as well as elected.

The legal frameworks for decentralization established by the federal and provincial government clearly see a strong ongoing presence by the provincial government. In fact, the design of decentralization in Pakistan is based on five fundamentals: ‘devolution of political power, decentralization of administrative authority, \textit{deconcentration of management functions} (emphasis added), diffusion of the power-authority nexus, and distribution of resources to the district levels.’ (Brillantes and Cuachon 2002) Maintaining provincial control over senior staff at the local level would appear to be consistent with this. And it also addresses a desire to maintain cross-district mobility for well-trained, highly skilled staff and those with potential for advancement. If senior staff are to remain provincial employees, there are options that can be considered that still move the yardsticks. At a minimum, reporting relationships, performance evaluation, and personnel management should clearly rest with the local levels they serve, regardless of whether they are considered provincial or local staff. However, a better balance may be struck by creating local government cadres serving all the districts within a province, so that mobility is protected, but accountability is squarely at the district level.
The Philippines

Background

The Philippines is the fourteenth most populous nation in the world, with about 70 million people. It is a unitary state under its constitution, but in terms of geography, history, culture and language it is anything but. The archipelago consists of more than 7,100 islands (of which about 1,000 are inhabited) stretching over 1,100 miles. These islands vary greatly in size, resource base, language and culture. Provincial and regional affinities have been historically as strong or stronger than national identity. (Rood 2002)

Given this backdrop, local politics in the Philippines have often had a significant impact on the national level, with national parties being built from competing alliances of local leaders, and those local leaders tending to come from the wealthiest and most influential families. The prevalence of warlordism and violence in local politics provided Ferdinand Marcos with justification for the imposition of martial law in 1972 and the subsequent disenfranchisement of elected officials.

As the machinery of the Marcos regime began to crumble in the mid-1980s, localism once again grew strong. In 1986, the new Corazón Aquino administration restored democratic government, and local elections were held in 1988. But the fact that many Marcos-era local officials were returned to office as a result of these elections underscores the strength of local politics in the Philippines.

In reaction to 14 years of authoritarian rule by the Marcos government, decentralization was a key promise of the new Aquino government. Decentralization was mandated in the new constitution of 1987, and detailed in the Local Government Code of 1991. The Code transferred significant financial resources, responsibilities and personnel from the national government to local governments. Although the Code legally took effect on January 1, 1992, in practical terms implementation was postponed until after the May 1992 elections for all local government offices, Congress and the presidency. Implementation of the Code, therefore, has coincided with the tenure in office of President Ramos. (Rood 2002)

Implementation of the Code was laid out in the Master Plan (1993-1998) for the Sustained Implementation of the Local Government of 1991 (approved by the President in 1994), and involved three phases. The first phase, to be completed in 1993, involved the actual transfer of devolved functions to local government units (LGUs), along with the corresponding assets and personnel. The second, transition phase, to be completed by 1996, called for institutional adjustments in both the national government agencies and the LGUs to reflect the impact of decentralization. Phase three was referred to as the stabilization phase, during which it was assumed that the LGUs would have built adequate capacities in managing their new responsibilities, with the support and technical assistance of the national government agencies. (Brillantes and Cuachon 2002)

To support the implementation of the Code, an interagency oversight committee was formed, whose membership included LGUs through their respective ‘leagues’ or associations, the Bureau of Local Government Finance of the Department of Finance, the Department of Budget and Management, and the Department of the Interior and Local Government. The committee was mandated to address specific problems referred to it for resolution.
**Box 9: The Creation of Local Government 'Leagues'**

A major development in local governance in the Philippines has been the emergence of various leagues of local government units. LGUs began to organize themselves into strong advocacy groups in the late 1980s, which pressed for the enactment of a local government code as mandated in the 1987 constitution. LGUs have variously formed the League of Provinces, the League of Cities, the League of Municipalities, and the Liga ng mga Barangay. Local officials have likewise organized themselves into the League of Vice Governors, Vice Mayors League, Philippine Councilors League, and the National Movement of Young Legislators. Local governments have also consolidated their forces into an overarching Union of Local Authorities of the Philippines. They have proposed major amendments to the Local Government Code, and have been at the forefront of resisting unfunded mandates. These organizations are now well established, many with their own secretariats that provide professional support and assistance.

Source: Brillantes and Cuachon 2002.

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**Description of the Decentralization Model**

The Philippines’ sub-national, self-government structure is made up of 79 provinces, 112 cities, 1,496 municipalities and over 41,944 barangays. Municipalities and barangays are component units of provinces, while cities are separate and independent from provinces, but also have barangays as component units. For planning purposes, the country is divided into 16 regions, each with a Regional Development Coordinating Council composed of provincial governors, city mayors and representatives from different national government agencies and the private sector. (Brillantes and Cuachon 2002)

**Figure 7: Structure of Government in the Philippines**

Funding for local government comes mainly from unconditional block grants, called Internal Revenue Allotments (IRAs). Under the Code of 1991, the IRAs were significantly increased to a

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15 In addition, there is one autonomous region of Muslim Mindanao.
fixed 40 per cent of internal revenue collections for the third preceding year. Of the total IRA, 23 per cent is shared by the provinces, 23 per cent by cities, 34 per cent by municipalities, and 20 per cent by barangays. Allocation among the individual LGUs within each category is allocated as follows: 50 per cent based on population, 25 per cent based on land area, and the remaining 25 per cent is shared equally. Also, natural resource related taxes, previously shared between the LGUs and the national government, were devolved to the local government where they are physically located. (World Bank 1995) The 1991 Code also granted local governments more power to generate their own financial resources, through the levy of property and business taxes.

The 1991 Code assigns a number of functions to local governments. Specifically, provinces administer tertiary health services (hospitals), some social welfare services, and infrastructure provision. Municipalities are the primary, general-purpose units of government, and have responsibility for primary health care, disease control, municipal health facilities and school buildings. Cities have the equivalent of the combined authority of provinces and municipalities. The Local Government Code provides an incentive for urban municipalities belonging to provinces to obtain their own city charters, thus becoming autonomous provincial-level units. If they do so, they receive a larger revenue share from the national government, and have more authority over their own taxes. (Azfar 2000)

The barangay, the lowest formal level of government, provides agricultural, health, social welfare, sanitation, infrastructure, public markets, and other services. Although the code describes barangays as the primary planning and implementing unit of government policies, in practice they have little policy-making or planning capacity, even though they have significant fiscal resources in comparison to their responsibilities. (Azfar 2000)

As a consequence of decentralization, some 70,000 national government staff were transferred from the Departments of Health, Social Work and Development, Agriculture, and Environment and Natural Resources to LGUs. This transfer took place beginning in January 1993, and although there were some transitional problems, by mid-1993, the transfers were essentially complete, allowing local government attention to turn to structural, organizational and procedural changes.

The most noticeable exception to the overall trend towards decentralization is education. Although responsibility for school construction has been devolved, the delivery of education remains at the central level. The Department of Education, Culture and Sports has been deconcentrating its operations to the administrative regions, and more recently to the division level (territorially equivalent to provinces). It is also developing a 10-year plan for devolution, but apparently intends to retain the power of hiring and firing teachers.

Table 10 summarizes some of the main features of the Philippines’ decentralized government structure. The degree of decentralization in this case is substantial, and because decentralization has been functioning here for much longer, it offers some useful insights with regards to staffing issues, which are discussed in the next section.
### Table 10: Key Features Affecting the Degree of Decentralization in the Philippines

<table>
<thead>
<tr>
<th></th>
<th>Political Features</th>
<th>Fiscal Features</th>
<th>Administrative Features</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Deconcentration (minimal)</strong></td>
<td>•</td>
<td>• While a large number of functions have been devolved, there are notable exceptions, in particular education; with the exception of school construction, this remains a national responsibility.</td>
<td>•</td>
</tr>
<tr>
<td><strong>Delegation (intermediate)</strong></td>
<td>•</td>
<td>• The majority of revenues come in the form of unconditional, formula-based block grants. However, through the use of numerous unfunded or partially funded mandates, particularly centrally fixed pay levels, much of local spending is tied to specific categories.</td>
<td>• Staff associated with devolved functions have been transferred to the respective LGUs, but staffing policy is set centrally, as are pay scales.</td>
</tr>
<tr>
<td><strong>Devolution (substantial)</strong></td>
<td>• Local government units are elected, and autonomous from the national government</td>
<td>• LGUs are able to set their own priorities within the context of centrally established standards. • LGUs also have some ability to raise their own revenues.</td>
<td>•</td>
</tr>
</tbody>
</table>

### Staffing Practices

**Box 10: Local Government Staffing Practices in the Philippines: Key Features**

- **Employer**: Staff are employed by the various Local Government Units (LGUs).
- **Reporting relationship**: To locally elected bodies.
- **Ability to hire, fire, assess performance**: Authority rests with the LGUs.
- **Local Civil Service Commission**: No local civil service commissions exist. Recruitment, qualifications and merit policy must be in accordance with the policies and standards of the national Civil Service Commission. In the case of health workers, the Magna Carta gives them the right to appeal to the national CSC.
- **Pay scales**: All devolved positions in the public sector are subject to centrally fixed levels of civil service pay and benefits; however, in some instances, LGUs can supplement salaries through use of their discretionary, own-source revenues.
- **Setting establishment ceilings, staffing norms**: Overall, LGUs can set their own establishment ceilings, but are limited in the total percent of budget that can be spent on personnel.
- **Payroll management**: All local staff are paid directly from local budgets.

Responsibility for staff was devolved in 1993 along with functional responsibilities. Although there are some constraints placed on local government affecting how they manage their staff, and in particular the impact of centrally established salary levels, LGUs appear to exercise as much flexibility as they can. For example, national salary scales for devolved employees sometimes create budget crunches and pay disparities between devolved and local officials. Where the central scale is too low, some provinces have supplemented devolved civil service pay out of local funds in order to alleviate the disparity. In other cases, the LGUs ignore centrally mandated civil service pay increases either because they cannot afford them or wish to save resources.
In some cases of mandatory devolved positions, local governments appear to have faced no consequences if they fail to make the requisite appointments. Opting not to fill such positions lets the LGU free up resources to allocate elsewhere.

**Health**

The most significant area of decentralization in the Philippines has been health care. Health care decentralization began in 1993 with the transfer of facilities and 46,000 staff, but these arrangements were immediately challenged by stakeholders and politicians at different levels, and put on hold. This delay lasted until 1995, when Congress debated and passed a proposal to return to the pre-reform, centralized system, only to be vetoed by President Ramos. (Rood 2002)

One of the issues that contributed to this delay was the significant concern on the part of national government health care employees who were designed for devolution. To address the issue, in 1993 the government passed the Magna Carta of Public Health Workers Act, which gave health care workers a comprehensive and generous package of benefits and guarantees. But, the Magna Carta amounted to an unfunded mandate that put financial pressure on LGUs, and also deepened the gap between reassigned Department of Health and locally-hired staff. This lead in 1995 to a follow-up Barangay Health Workers Benefit and Incentives Act, which gave local workers access to civil servant status and other incentives and benefits. Nevertheless, demoralized hospital workers joined the unsuccessful 1995 campaign to re-nationalize of hospitals, since they still believed devolution threatened their pay and working conditions, as well as their professional prospects compared to their national government colleagues. (Lieberman 2002)

**Education**

LGUs are responsible for school construction and repair, but all other functions are centralized – policy, curriculum, personnel, and operations. Plans are underway to decentralize, but a stumbling block to transferring teachers is the fact that teachers also act as agents for the electoral commission, which creates a risk of local political interference.

Despite the formal centralized structure of education, de facto governors and mayors both approve appointments and intervene to influence hiring. For example, where there is a list of certified candidates for a teaching or principal position, the governors will often determine the actual choice based on preferences for local hiring, political considerations, or some request or favour from the candidate. In addition, LGUs can supplement teaching staff as well as teacher salaries. These arrangements can also involve LGUs hiring substitute teachers to avoid delays in central hiring. Frequently, after a delay of a couple of years, the central government will often hire these temporary teachers and put them on the central payroll.

Overall, local governments in the Philippines have and do exercise considerable control over the management of staff within their jurisdiction, within and sometimes despite of constraints set by national government. What is interesting is that, despite the importance in the country of local government organizations and their use to lobby national government, it does not appear that this or a similar vehicle has been used to create an association of staff across local governments, to help address some of the issues around career and mobility.

**Lessons Learned**

The Philippines provides a good example of a decentralization model where the responsibility for functions, fiscal resources, staffing and administration have shifted more or less in a consistent fashion. Certainly, there are areas where the national government continues to exert influence, in terms of setting standards, controlling central salaries, and imposition of other unfunded mandates. But by and large, it would appear that the local governments have been able to exercise enough flexibility to find solutions that, if not ideal, are at least workable.
There are a number of conditions in place that have created a favorable climate from which decentralization has had a good opportunity to flourish. Prominent among these is a strong tradition of local government and culture. This reality has manifested itself in at least two ways. First, it has lead to the formalization of collective action by local governments in forwarding their position to the national government. Second, it has resulted in entrepreneurial action by many individual local governments to experiment and innovate with regards to service delivery. The latter has been further reinforced by the establishment of the Galing Pook awards for innovation in local governance – a program that highlights and helps replicate best practices. (Azfar 2000)

In the first several years after decentralization, a technique for assessing progress in implementation, called Rapid Field Appraisals, was successfully used in the Philippines (and has since been applied in Indonesia). These empirical studies, funded by USAID, have been conducted periodically in the Philippines since the implementation of the Local Government Code in 1992. The technique was designed to provide timely information for decision-makers during the course of implementation and to monitor nationwide progress towards decentralized democracy. Each appraisal takes about six weeks to complete. Locally based consultants prepare regional reports based on roughly ten days of fieldwork. A two-day seminar is then held in Manila to collate and analyze their observations, followed by a public presentation to decision-makers and influential individuals in the decentralization process. Finally, a synopsis is written to integrate the findings for the Philippines, and this report is widely disseminated. (Rood 2002)

These appraisals have helped the government to respond more quickly to problems that have arisen during the course of implementation.
**Poland**

*Background*

In 1990, Poland’s first non-communist government in 40 years decentralized authority for a significant number of service delivery responsibilities to democratically elected municipal governments (gminas). The primary motivation for this was political – the desire to dismantle the communist apparatus by carving off the lower levels of state administration, and putting them in the hands of local councils. Thus, the adoption of the Act on Local Self Government in March 1990 (followed by local elections two months later) was the first significant step in local government reform in Poland, and formed an important part of the broader transformation of Poland’s governmental framework.

From 1990 to 1999, local self-government only existed at the municipal, or gmina level. At the same time, 268 territorial offices were created (based on the pre-1975 system of counties) to deliver deconcentrated services that remained the responsibility of the (national) state administration. At the regional level, the state was represented by the voivode or governor, who was appointed by the Prime Minister.

Through most of the 1990s, much political debate took place over the appropriate form of additional levels of local and regional government; reflecting an ongoing tension between the desire for local democracy growing out of the worker councils of the 1980s, and the need to protect the fragile coalition governments at the center. In the summer of 1998, the parliament finally took the decision to create powiat (county) and voivodship (regional) self-governments, effective from January 1, 1999. Concurrently, the territorial offices were abolished and most of their tasks were transferred to the new counties.

*Description of the Decentralization Model*

**Figure 8: Structure of Government in Poland (Since 1999)**
Poland’s local government sector is made up of 2489 gminas, or municipal self-governments and, as of 1999, 373 powiats or counties (including 65 cities with powiat status). (SIGMA 1999) The gminas are the basic unit of local government – the only one explicitly referenced in the Constitution – and have delivery responsibility for a wide range of functions, including local transportation social welfare, water and sewage, public health, primary education, sport and culture, housing, parks, fire protection, etc. Powiats have responsibility for secondary education, health care institutions, and other functions that extend beyond communal boundaries.

Regional government is made up of 16 ‘voivodships’ with elected self-governments (effective January 1, 1999). Their responsibilities are focused on regional development, and include post-secondary schools, specialized health facilities, regional roads, and so on. The voivodship is headed by the voivode, who is appointed by the Prime Minister, and is accountable to the central government. The voivode is also responsible for ensuring that national policies are implemented and enforced within the voivodship, and that state institutions operating within the region perform their functions appropriately. Therefore, at the voivodship level, self-government operates in parallel with the deconcentrated apparatus of the state government.

### Box 11: Responsibilities of Subnational Governments in Poland

<table>
<thead>
<tr>
<th>Voivodships</th>
<th>Powiats</th>
<th>Gminas</th>
</tr>
</thead>
<tbody>
<tr>
<td>• education: post-secondary schools, certain secondary and vocational</td>
<td>• secondary education: post-</td>
<td>• territorial planning, property</td>
</tr>
<tr>
<td>schools, teacher training colleges, voivodship libraries, high schools,</td>
<td>elementary schools, vocational and special schools;</td>
<td>administration, environmental protection;</td>
</tr>
<tr>
<td>including vocational ones, with a regional reach;</td>
<td>general responsibility for the operation of the public health</td>
<td>communal roads, bridges, squares, streets, traffic management;</td>
</tr>
<tr>
<td>• health protection: specialized facilities within a regional service</td>
<td>service institutions (financed from the Health Funds);</td>
<td>water supply, sewage, waste removal;</td>
</tr>
<tr>
<td>area, medical emergency and ambulance services, spas and health</td>
<td>organizing and providing social welfare services that extend</td>
<td>local public transport;</td>
</tr>
<tr>
<td>resort facilities;</td>
<td>beyond communal boundaries;</td>
<td>public health protection;</td>
</tr>
<tr>
<td>• culture: cultural institutions within a regional service area,</td>
<td>sanitary and epidemiological supervision;</td>
<td>social assistance;</td>
</tr>
<tr>
<td>preservation of cultural assets;</td>
<td>maintenance of public order and collective safety;</td>
<td>communal housing;</td>
</tr>
<tr>
<td>• social welfare: facilities within a regional service area, including</td>
<td>support of cultural institutions whose activities extend beyond</td>
<td>education up to the primary school level;</td>
</tr>
<tr>
<td>shelters, orphanages and old age homes;</td>
<td>communal boundaries;</td>
<td>culture;</td>
</tr>
<tr>
<td>• modernization of rural areas;</td>
<td>road construction and maintenance;</td>
<td>sport;</td>
</tr>
<tr>
<td>• territorial development;</td>
<td>building supervision, as well as the registry and exchange of land,</td>
<td>marketplaces and halls;</td>
</tr>
<tr>
<td>• preservation of the natural environment;</td>
<td>water management and environmental protection;</td>
<td>parks and green areas;</td>
</tr>
<tr>
<td>• water management, land amelioration and maintenance of hydraulic</td>
<td>flood and fire precautions, management of natural disasters;</td>
<td>communal cemeteries;</td>
</tr>
<tr>
<td>installations;</td>
<td>promotion of economic activities;</td>
<td>public order and fire protection;</td>
</tr>
<tr>
<td>• roads and transport, particularly with respect to the modernization,</td>
<td>counteracting unemployment;</td>
<td>maintenance of structures of public utility.</td>
</tr>
<tr>
<td>maintenance and protection of voivodship roads.</td>
<td>protection of consumer rights;</td>
<td></td>
</tr>
<tr>
<td>• territorial planning, property</td>
<td>maintenance of county facilities and public utilities.</td>
<td></td>
</tr>
<tr>
<td>administration, environmental protection;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• communal roads, bridges, squares, streets, traffic management;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• water supply, sewage, waste removal;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• local public transport;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• public health protection;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• social assistance;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• communal housing;</td>
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</tr>
</tbody>
</table>

Source: Sigma 1999.

The gminas receive their revenues from four sources – own-source revenues (33.2 per cent of total revenues), shared taxes (16.5 per cent), a general subsidy grant (32.8 per cent) and specific
grants (15.1 per cent).\textsuperscript{16} Own-source revenues include fees and local taxes (primarily real estate taxes). Although the national government sets maximum rates and determines the base, own-source revenues contribute a substantial portion of total local revenues. Gminas also share in personal income tax. The general-purpose grant has three components – basic, education and compensatory (to offset some lost revenues), and is formula based. The specific grants are for various purposes, but the bulk is for investment. For powiats and voivodships, the share of general purpose and specific grants is much higher, representing a total of 79 per cent of total revenues in 2000.\textsuperscript{17} (Bury and Swianiewicz 2002)

While the general-purpose grant is calculated by formula and there are no direct conditions on how the funds should be spent, in reality, flexibility of local governments is limited considerably by delivery standards and wage rates set by the national government.

Table 11 summarizes the main features of Poland’s decentralized government structure. While the degree of political decentralization and the extent to which services have been devolved is substantial, the national government continues to hold considerable control over delivery standards and personnel management.

<table>
<thead>
<tr>
<th>Deconcentration (minimal)</th>
<th>Delegation (intermediate)</th>
<th>Devolution (substantial)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political Features</td>
<td>Fiscal Features</td>
<td>Administrative Features</td>
</tr>
<tr>
<td>•</td>
<td>•</td>
<td>•</td>
</tr>
<tr>
<td>• Some national government responsibilities are deconcentrated, under the authority of the voivode.</td>
<td>• A broad range of functions have been devolved to the (primarily) local and regional levels, but the national government continues to set policy norms and delivery standards</td>
<td>• Staff performing devolved functions have been transferred to local government, but their terms and conditions of employment are established by central legislation. Wages are also set centrally.</td>
</tr>
<tr>
<td>• Gminas, powiats and voivodships are all locally elected self governments.</td>
<td>• The bulk of revenues is either own-source revenues, shared taxes and unconditional grants</td>
<td>•</td>
</tr>
</tbody>
</table>

\textit{Staffing Practices}

Generally, the functions devolved to local governments have been accompanied by transfers of staff, and the local government has become the employer. The main transfers of staff took place in 1992, when about 75,000 staff were transferred to the local level. (Nunberg 1999) The Act on Self Government Employees of February 22, 1990 regulates employee relations in local government. Local governments do engage in personnel and wage bill management practices similar to those of the central administration, but their autonomy is largely limited, either by controls over complement or by centrally set remuneration scales. The key features of local government staffing practices are contained in Box 12.

\textsuperscript{16} Revenue shares are for 2000, and include cities of powiat status. An additional 2.4 per cent comes from other sources. (Bury and Swianiewicz 2002).

\textsuperscript{17} Includes only powiats that are not cities of county status.
Box 12: Local Government Staffing Practices in Poland: Key Features

- **Employer:** Local government is the employer of all staff performing devolved functions.
- **Reporting relationship:** To the locally elected governments.
- **Ability to hire, fire, assess performance:** This authority rests with the local government, subject to the provisions of the 1990 Act on Self-Government Employees. In the case of teachers, the Teachers’ Charter establishes terms of employment, which greatly limits local flexibility.
- **Local Civil Service Commission:** Does not exist at the local level.
- **Pay scales:** Pay scales and employment conditions are set by the state government, but local governments have the ability to supplement the base salary, and in fact often do. In education in particular, this practice was common even before decentralization, when staff were state employees.
- **Setting establishment ceilings, staffing norms:** In most cases, establishment ceiling and staffing norms are set centrally.
- **Payroll management:** Managed and paid locally.

The case of education deserves some specific attention, in that it illustrates fairly starkly the impact of decentralizing service delivery while trying to maintain central control over content. Moreover, the teachers’ unions have been able to exercise substantial influence over personnel management through the Teachers’ Charter.

Devolution of primary education to gminas began in 1992, on a voluntary basis, and became compulsory in 1996. By the following year, municipalities were running all regular public pre-schools and primary schools, and approximately one-third of post-primary schools and educational institutions. The Ministry of National Education (MNE) retains power over teachers’ employment (through the Teachers’ Charter), education programs (unified curriculum and textbooks), and pedagogical supervision carried out by provincial superintendents. MNE even determines the number of teaching hours per subject.

The Teachers’ Charter defines teacher qualifications, and regulates salaries, appointment rules, career path and teaching load. However, in municipally operated schools, teacher salaries are funded through local budgets and levels are determined by the school principal (through top-ups to basic pay); the principal also decides how many teachers to hire, evaluates them according to MNE regulations, and may fire poorly performing teachers. But the rules of appointment and teaching load (18 hours per week) constitute important privileges of the profession and are strongly defended by powerful teachers unions; in practice, it is very difficult to fire teachers. Also, the low teaching load makes personnel policy difficult and the use of labour resources within a school not very effective.

*Lessons Learned*

From the beginning, decentralization in Poland has been lead and influenced by politics, not only the broader trend to decentralize in the context of post-communist government, but also the internal political flows among weak and shifting coalitions. As a result, decentralization has moved ahead, but checks have been put in place along the way to protect the central state government. Thus, considerable fiscal decentralization has been sanctioned, but program standards have placed restrictions how the money is spent. Staff have been devolved, but the interests of the unions have been protected. While these do not seem to be insurmountable problems, they certainly suggest that the full benefits of improved service delivery have not been realized. Education is a case in point, where greater flexibility regarding class size and teacher workload could reduce the demand for teachers significantly but the provisions in the Teachers’ Magna Carta stand in the way.
As such, this case provides a good example of the consequences that can result from a lack of strong political will in support of decentralization. Not only has there been a conflicting set of policies and decision related to decentralization, but there has also been little interest in planning through an effective decentralization model.
**Uganda**

**Background**

Since Uganda gained independence in 1963, its history has been turbulent. Coups in 1966 and 1971 were followed by war with Tanzania in 1979. A protracted guerrilla struggle from 1981 to 1985 led to the victory of the National Resistance Movement (NRM) in January 1986. At that stage the economy was shattered, law and order had collapsed, and the civil service was unable to deliver services. On taking power, the NRM announced fundamental institutional, economic and political reforms. (Kullenberg and Porter 1998) A key part of these reforms was the endorsement of decentralization to local government.

In 1992, Uganda’s Cabinet formally adopted devolution as its approach to decentralization, as opposed to deconcentration. In 1993 Parliament enacted the Local Governments (Resistance Councils) Statute, which assigned specific functional responsibilities to local government, and supported the decentralization of personnel management through the establishment of district Service Commissions. Decentralization was also incorporated to the 1995 Constitution, which established authority of District Service Commissions to hire, fire and manage frontline personnel. In 1997 the Local Government Act was passed which further detailed the roles, function and powers of local and central governments. The process of decentralization has been supported by a Decentralization Secretariat, which is located within the Ministry of Local Government.

While these three ‘defining moments’ for Uganda’s decentralization structures where developing, implementation was underway. And in fact it was to some degree an interactive process. With highly participatory, often contentious debate, interspersed with institutional experimentation, review, and innovation, these events formed the critical moments when the rules of the game for decentralized governance in Uganda were formally established. (World Bank 2002f)

**Description of the Decentralization Model**

The Ugandan system of local government consists of a number of different levels. In rural areas, local governments include 56 districts, which in turn delegate powers to counties, sub-counties, parishes and villages. In urban areas, the highest level of local government includes cities (10), municipalities (130), and town councils (50). Cities and municipalities are divided into divisions and wards. In addition, the city of Kampala has the status of a district. (Government of Uganda 2002a) Only the districts, cities/ municipalities/towns, and sub-counties are run by bodies elected through popular elections. (Moai Task Force on Sector Devolution 2002)

Most service delivery functions have been decentralized to local government, along with staff and assets. The central government continues to be responsible for typical national public goods, such as law, order, defense, foreign affairs, monetary policy, natural resources, and the regulation of all economic sectors. Essentially, all other functions have been decentralized; however, the central government retains the power of setting national guidelines and standards in most policy areas for which local governments are responsible.

The subnational governments derive revenues from four main sources, namely locally collected revenues, central government transfers, donations/donor grants, and other sources. On average, the most important of these is central government transfers – including conditional grants, unconditional grants and equalization grants. The share of conditional grants has grown over time; the majority of conditional funding is for health, education, roads, agriculture and water,
and within these, wages represent a significant portion. Unconditional grants pay for expenditures in other functional areas, including general administrative staff. All three types of grants are formula-based. (USAID. Undated-b)

Figure 9: Structure of Government in Uganda

Table 12: Key Features Affecting the Degree of Decentralization in Uganda

<table>
<thead>
<tr>
<th>Political Features</th>
<th>Fiscal Features</th>
<th>Administrative Features</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deconcentration (minimal)</td>
<td>•</td>
<td>•</td>
</tr>
<tr>
<td>Delegation (intermediate)</td>
<td>•</td>
<td>• Most service delivery functions have been devolved to local government, but policy standards continue to be set by the central government.</td>
</tr>
<tr>
<td>Devolution (substantial)</td>
<td>• The main levels of local government – districts and to a lesser extent, sub-counties, are run by elected councils.</td>
<td>• Staff are employed locally, but there is a significant degree of local control over personnel management, including salary levels, establishment ceilings, hiring practices, etc.</td>
</tr>
</tbody>
</table>

Each year, between October and May, the Ministry of Finance holds consultation on the distribution of the national resource envelope (via budget conferences and workshops) among all stakeholders in local government finance. Though they are not legally binding, indicative figures
on the amount of money to be allocated to local government units, as grants are tentatively set during these consultations sessions. (USAID, Uganda Mission Undated(b))

Table 12 summaries the key features of Uganda’s decentralized government structure.

**Staffing Practices**

All staff at the district and other locally governed levels are employed locally. As part of the decentralization process, existing staff located in districts were ‘delinked’ from their ministries. It should be noted however, that although many staff were formally transferred under the 1993 Statute, it was not until the 1996-97 restructuring of central ministries that separated out the ‘white collar’ role (central government) from front line delivery (local government) did the management of staff move beyond deconcentration to devolution, in a practical sense. (World Bank 2002f)

There is a District Service Commission (DSC) in each district, appointed by the District Council; the DSCs are responsible for advertising vacancies, interviewing & hiring front-line workers, and providing oversight of personnel practices, both for districts and other local government. General recruitment standards are set by the Public Service Committee at the national level. Recruitment is expected to be based on merit and staff may be recruited from anywhere in the country (but this is not always true in practice). A main concern with the DSCs is that there is usually a backlog in recruitment, generally attributable to a lack of timely compensation for Commissioners. Performance evaluations are rarely done; however merit is usually taken into account in considering promotions. Discipline is a significant problem, with little ability to enforce discipline in many cases. Political influence at the local level sometimes makes it difficult to enforce codes of conduct.

**Box 13: Local Government Staffing Practices in Uganda: Key Features**

| § Employer: All staff at the district and other locally governed levels are employed locally. |
| § Reporting relationship: To local governments. |
| § Ability to hire, fire, assess performance: Authority to hire/fire rests with the District Service Commissions who recruit for districts and other levels of local government. General recruitment standards are set by the Public Service Committee at the national level. Performance evaluations rarely done; however merit is usually taken into account in considering promotions. Discipline is a significant problem, with little ability to enforce discipline in many cases. |
| § Local Civil Service Commission: There are District Service Commissions (DSC) in each district, appointed by the District Council. |
| § Pay scales: Salaries are generally set by the central government for devolved services, but districts are free to provide incentive allowances. Some districts without adequate funding may not be able to afford to hire qualified staff. |
| § Setting establishment ceilings, staffing norms: There is a high degree of control by central government in setting and enforcing ceilings and staffing norms, even down to the facility level. To the extent there are constraints in hiring at particular facilities, many districts have coped by hiring supernumerary, unqualified staff outside of the ceilings. |
| § Payroll management: Payroll management is centralized for education and health workers, sometimes resulting in delays in adding new staff to the payroll (particularly for primary school teachers), and processing pay change reports. However, some movement is underway towards decentralizing components within an integrated payroll system. For other staff, pay is managed locally. |
In addition to the DSC, each district has a District Personnel Office (DPO). A recent survey of personnel management reported that many of these DPOs were under-resourced, both in terms of staff numbers and capability.

Even though there is fair degree of central control over personnel management, through centrally established wages and establishment ceilings, local governments do have a relatively high degree of flexibility, sometimes even to its detriment. For example, in 1994, the central ministry of Agriculture devolved its field staff, and the districts and sub-counties assumed most agriculture functions. With few restrictions on staffing policy, many districts retrenched staff employed in this sector, even to the point of reduced service delivery. Through support from DANIDA\(^{18}\) on core functional analysis, the ministry is now considering the introduction of staffing guidelines. (Moai Task Force on Sector Devolution 2002)

And there are other problems that need to be addressed. Prior to decentralization, for example, there were differences in the salaries of locally hired district health personnel and those recruited by the central government. After decentralization, the government harmonized the salary scales to eliminate the differences. However, the regularity with which salaries are paid varies depending on whether particular staff were previous employees of the Ministry of Health (and therefore paid out of the conditional grant), or locally hired staff, whose pay comes from other (less predictable) sources of revenue. In the latter case, delays in payment could result from problems with tax collection, or changes in local policy priorities. (Hutchinson 1999)

A serious problem for local staff is the lack of career perspective and mobility. Interviewees from a recent agriculture sector study tour noted that many staff had not changed positions since devolution. The DSC is expected to ensure recruitment is based on merit and staff may be recruited from any district; however, interviewees indicated this was not always happening. (Moai Task Force on Sector Devolution 2002)

**Lessons Learned**

Uganda represents one of the more dramatic examples of decentralization of the countries included in this study. Broad-based decentralization took place within a relatively short length of time, in an institutional context where there was very little existing local capacity. But this decentralization has been carried out within a tight set of policy and administrative controls from the center, ranging from centrally established pay rates, policy norms, establishment ceilings and predominance of conditional fiscal transfers, to the extent that decentralization is better described as delegation than true devolution.

An important factor that has contributed to the degree of success that has been achieved thus far has been the extensive support from the donor community to help build capacity, as well as support other concurrent reforms in the civil service, budget, etc. And as local capacity continues to improve, it may be that some of the more restrictive dictates from the center can be loosened.

Uganda is also a useful example where a district level civil service commission has been used from the beginning to support personnel management at the local level. The use of a CSC structure has certainly not solved all problems. They have created some backlogs in hiring, and there remain difficulties in hiring qualified staff, particularly in some of the more remote areas. But it offers the potential for promoting recruitment of a qualified, professional civil service, reducing the risk of nepotism and other inappropriate hiring practices to which an inexperienced local government sector can fall victim.

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**Poland**


Uganda


