

# Background paper on

## “Decentralization”

Contribution to Cost-Action E19

“National Forest Programmes in the European Context”

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### I Background

Governments are opening exciting and innovative opportunities for reaching sustainable forest management and biodiversity conservation goals by decentralizing authority and responsibility for resource management in many parts of the world. In general policy, at (inter) national level, the most important attribute to the quality of sustainable forest management is the reconciliation of ecological, economic, and social interests in forests. In specific policy at the regional and municipal level, the most important attribute to the quality of sustainable forest management is the consideration of silvicultural, socio-economic and political conditions at these levels.

The various players at the local level – local governments, non-governmental organizations (NGOs), local communities and industries – have the advantage of being closer to the forests than those representatives of central government bureaucracies formulating policies at the national level. Local authorities are usually in more direct contact with those stakeholders who reside or work in the forests and who depend to varying degrees from all the diverse forest products. Several efforts work together to enhance the capacity of sustainable forest management, such as relocating governmental services towards the periphery, to rural towns and communities. It also includes the devolution of planning and implementation powers and responsibilities to lower levels of government, indigenous organizations, as well as the private sector.

### II Definition

Since the 1980s, decentralization and globalization are topics in politics in most European and in developing countries (The World Bank Premnotes, 2001; BiZa, 1980). In this paper we will not go into the globalizationprocess, but concentrate on the decentralizationprocess.

The term "decentralization" embraces a variety of concepts which must be carefully analyzed in any particular country before determining if projects or programs should support reorganization of financial, administrative, or service delivery systems (The world bank group, 2002). Decentralization, wich denotes to a process or situation of transfer of authority and responsibility for public functions from the central government to intermediate and local governments or quasi-independent government organizations and/or the private sector, is a complex multifaceted concept. Different types of decentralization should be distinguished because they have different characteristics, policy implications, and conditions for success.

**The type of decentralization** ( political, administrative, fiscal, and market decentralization) selected within a country will depend on its **design**, which will depend on the political structure and administrative issues of that country. The impact of decentralization will differ depending on what type of decentralization is taking place, (the political, fiscal and administrative arrangements which characterize the decentralization), what **the objectives and conditions** of decentralization are (Fleuke, 1997). It is important to introduce consistency in any discussion of decentralization to avoid "comparing apples and oranges" and to ensure that we can draw lessons where applicable. Drawing

distinctions between these various concepts is useful for highlighting the many dimensions to successful decentralization and the need for coordination among them. Nevertheless, there is clearly overlap in defining any of these terms and the precise definitions are not as important as the need for a comprehensive approach. Political, administrative, fiscal and market decentralization can also appear in different forms and combinations across countries, within countries and even within sectors.

**Political decentralization** aims to give citizens or their elected representatives more power in public decision-making. It is often associated with *pluralistic politics* and *representative government*, but it can also support democratization by giving citizens, or their representatives, *more influence in the formulation and implementation of policies*. From the perspective of *democratic principles*, decentralisation then means the distribution of powers between elected authorities. This can simply mean that detailed decisions are made by local representatives of local powers, though always within policy guidelines, and probably funding arrangements, directed by the center (Robertson 1993, p.125).

Advocates of political decentralization assume that decisions made with greater participation will be better informed and more relevant to diverse interests in society than those made only by national political authorities. The concept implies that the selection of representatives from local electoral jurisdictions allows citizens to know better their political representatives and allows elected officials to know better the needs and desires of their constituents. Political decentralization often requires constitutional or statutory reforms, the development of pluralistic political parties, the strengthening of legislatures, creation of local political units, and the encouragement of effective public interest groups

*Participation and decentralization* have a symbiotic relationship. On the one hand, successful decentralization requires some degree of local participation. Subnational governments' proximity to their constituents will only enable them to respond better to local needs and efficiently match public spending to private needs if some sort of information flow between citizens and the local governments exist. On the other hand, the process of decentralization can itself enhance the opportunities for participation by placing more power and resources at a closer, more familiar, more easily influenced level of government. In environments with poor traditions of citizen participation, decentralization can be an important first step in creating regular, predictable opportunities for citizen-state interaction. The symbiotic relationship between decentralization and participation leads to somewhat contradictory policy guidelines. On one hand, mechanisms for citizen participation could be considered a helpful pre-condition when evaluating the prospects for successful decentralization. Accordingly, the design of decentralization should take into account the opportunities and limitations imposed by existing channels of local participation. On the other hand, lack of participatory mechanisms could be considered a motivation for decentralization and can help create local demand for more participatory channels to voice local preferences. This note discusses each of these dimensions -- participation as a means to successful decentralization and as a goal of decentralization. The first section concentrates on the broad mechanisms for citizen input that are best seen as parameters of decentralization policy. These types of institutional structures, embedded in the national political environment and developed over a long period of time, cannot be altered quickly by a simple regulation. The second part shifts to the smaller, more specific avenues for citizen participation that can be created in the process of decentralization. These incremental changes can eventually evolve toward broader opportunities for citizen participation and democratic governance.

*Constitution, laws and regulations* codify the formal rules of the game by which a decentralized system is supposed to function. Structurally, the desirable architecture of these rules is quite straightforward: the constitutions should be used to enshrine the broad principles on which decentralization is to operate, including the rights and responsibilities of all levels of government; the description and role of key institutions at central and local levels; and, the basis on which detailed rules may be established or changed.. One or more laws should define the specific parameters of the intergovernmental fiscal system and the institutional details of the local government structure, including, key structures, procedures (including elections), accountabilities and remedies; and, a series of regulations associated with each law should interpret and describe in detail the practices and measures by which the related law will operate. Laws that deal with tasks that are shared between national and subnational governments should include sections on intergovernmental relations. As decentralization is a complex social experiment a good case may be made for there to be more

flexibility in the ability to change the specificity of implementation instruments, while enshrining the political and philosophical principles in the Constitution and the operating structures in the laws.

In addition to "substantive" law mentioned above, a country's "procedural" laws can have profound impacts on the success of decentralization efforts. For example, when local expenditures must be "pre-audited" by a central authority, rigidities are introduced which make the benefits of decentralization more difficult to achieve. When reviewing the legal framework for decentralization, it is not sufficient to examine decentralization specific laws -- other laws which mandate aspects of service delivery, civil service, budgeting and so one must also be considered to ensure a consistent approach. Treatment of key issues in the legal and regulatory framework will be shaped by whether the governmental system is unitary or federal.

**Administrative decentralization** seeks to redistribute authority, responsibility and financial resources for providing public services among different levels of government. It is the transfer of responsibility for the planning, financing and management of certain public functions from the central government and its agencies to field units of government agencies, subordinate units or levels of government, semi-autonomous public authorities or corporations, or area-wide, regional or functional authorities. The sub-systems may be territorial units (federalism) or bodies entitled to self-sufficiency. Decentralization is based on the principle of subsidiarity (Holtmann 2000, p.131).

The three major forms of administrative decentralization -- *deconcentration*, *delegation*, and *devolution* -- each have different characteristics. *Deconcentration* --which is often considered to be the weakest form of decentralization and is used most frequently in unitary states-- redistributes decision making authority and financial and management responsibilities among different levels of the *central* government. It can merely shift responsibilities from central government officials in the capital city to those working in regions, provinces or districts, or it can create strong field administration or local administrative capacity under the supervision of central government ministries. *Delegation* is a more extensive form of decentralization. Through delegation central governments transfer responsibility for decision-making and administration of public functions to semi-autonomous organizations not wholly controlled by the central government, but ultimately accountable to it. Governments delegate responsibilities when they create public enterprises or corporations, housing authorities, transportation authorities, special service districts, semi-autonomous school districts, regional development corporations, or special project implementation units. Usually these organizations have a great deal of discretion in decision-making. They may be exempt from constraints on regular civil service personnel and may be able to charge users directly for services. A third type of administrative decentralization is *devolution*. When governments devolve functions, they transfer authority for decision-making, finance, and management to quasi-autonomous units of local government with corporate status. *Devolution* usually transfers responsibilities for services to municipalities that elect their own mayors and councils, raise their own revenues, and have independent authority to make investment decisions. In a devolved system, local governments have clear and legally recognized geographical boundaries over which they exercise authority and within which they perform public functions. It is this type of administrative decentralization that underlies most political decentralization.

**Fiscal decentralization.** Financial responsibility is a core component of decentralization. If local governments and private organizations are to carry out decentralized functions effectively, they must have an adequate level of revenues --either raised locally or transferred from the central government-- as well as the authority to make decisions about expenditures. Fiscal decentralization can take many forms, including a) self-financing or cost recovery through user charges, b) co-financing or co-production arrangements through which the users participate in providing services and infrastructure through monetary or labor contributions; c) expansion of local revenues through property or sales taxes, or indirect charges; d) intergovernmental transfers that shift general revenues from taxes collected by the central government to local governments for general or specific uses; and e) authorization of municipal borrowing and the mobilization of either national or local government resources through loan guarantees. In many developing countries local governments or administrative units possess the legal authority to impose taxes, but the tax base is so weak and the dependence on central government subsidies so ingrained that no attempt is made to exercise that authority.

**Economic or market decentralization.** The most complete forms of decentralization from a government's perspective are *privatization and deregulation* because they shift responsibility for

functions from the public to the private sector. Decentralisation means effectivity and appropriateness of policy. A fully centralized system runs the risk of being inefficient because it is *poorly informed* and does not create *proper incentives* (Malinvaud 1998, p.751). As outcomes of policies are dependent upon implementation by bureaucracies, the *administration responsibilities* are transferred to those *levels* where the corresponding tasks arise. One expects the most effective execution of tasks at the local level. This has led to the acceptance of the idea that implementation concerns should guide policy from the bottom up, rather than vice versa (Peters and Wright 1996, p.634).

Privatization and deregulation are usually, but not always, accompanied by economic liberalization and market development policies. They allow functions that had been primarily or exclusively the responsibility of government to be carried out by businesses, community groups, cooperatives, private voluntary associations, and other non-government organizations. *Privatization* can range in scope from leaving the provision of goods and services entirely to the free operation of the market to "public-private partnerships" in which government and the private sector cooperate to provide services or infrastructure. Privatization can include: 1) allowing private enterprises to perform functions that had previously been monopolized by government; 2) contracting out the provision or management of public services or facilities to commercial enterprises (indeed, there is a wide range of possible ways in which function can be organized and many examples of within public sector and public-private institutional forms, particularly in infrastructure; 3) financing public sector programs through the capital market (with adequate regulation or measures to prevent situations where the central government bears the risk for this borrowing) and allowing private organizations to participate; and 4) transferring responsibility for providing services from the public to the private sector through the divestiture of state-owned enterprises. *Deregulation* reduces the legal constraints on private participation in service provision or allows competition among private suppliers for services that in the past had been provided by the government or by regulated monopolies. In recent years privatization and deregulation have become more attractive alternatives to governments in developing countries. Local governments are also privatizing by contracting out service provision or administration.

### **III Rationale**

The main reason for decentralization around the world looks like if it is simply happening, but the impuls of decentralization in the 1980s came as a reaction on the disfunctioning of national governments. Although one could say that politics are the driving force behind decentralization in most countries, decentralization may be one of those instances where good politics and good economics may serve the same end. There are a multitude of design issues that affect the impact of different types of decentralization on efficiency, equity and macrostability.

According to DENR/FMB, FAO & RECOFTC ( 1998), the trend to decentralize is driven by a range of "push and pull" factors, including efforts – frequently the need – to reduce central bureaucracies and cut budgets, a history of government forest management failures, increased economic liberalization and market orientation, and growing commitment to more socially just and equitable forest management. The political objectives to increase political responsiveness and participation at the local level can coincide with the economic objectives of better decisions about the use of public resources and increased willingness to pay for local services.

#### **Advantages and disadvantages of decentralization**

Under appropriate conditions, all forms of decentralization can play important roles in broadening participation in political, economic and social activities in countries. Where it works effectively,

- ❑ decentralization helps alleviate *the bottlenecks in decision making* that are often caused by central government planning and control of important economic and social activities.
- ❑ decentralization can help cut complex *bureaucratic procedures* and it can increase government officials' sensitivity to local conditions and needs.
- ❑ decentralization can help national government ministries reach larger numbers of local areas with services

- ❑ decentralization can allow greater *political representation* for diverse political, ethnic, religious, and cultural groups in decision-making
- ❑ decentralization can relieve top managers in central ministries of "routine" tasks to concentrate on policy.
- ❑ In some countries, decentralization may create a geographical focus at the local level for coordinating national, state, provincial, district, and local programs more effectively and can provide better opportunities for participation by local residents in decision making.
- ❑ decentralization may lead to more creative, innovative and responsive programs by allowing local "experimentation."
- ❑ decentralization can also increase political stability and national unity by allowing citizens to better control public programs at the local level.

At least five **conditions** are important for successful decentralization:

- ❑ The decentralization framework must link, at the margin, local financing and fiscal authority to the service provision responsibilities and functions of the local government - so that local politicians can bear the costs of their decisions and deliver on their promises
- ❑ the local community must be informed about the costs of services and service delivery options involved and the resource envelope and its sources - so that the decisions they make are meaningful. Participatory budgeting, such as in Porto Alegre, Brazil, is one way to create this condition.
- ❑ there must be a mechanism by which the community can express its preferences in a way that is binding on the politicians --so that there is a credible incentive for people to participate
- ❑ there must be a system of accountability that relies on public and transparent information which enables the community to effectively monitor the performance of the local government and react appropriately to that performance- so that politicians and local officials have an incentive to be responsive; and,
- ❑ the instruments of decentralization --the legal and institutional framework, the structure of service delivery responsibilities and the intergovernmental fiscal system-- are designed to support the political objectives.

Fulfilling these goals (or at least having local governments improve upon the central government's record) is a tall order, but achievable. Successful decentralization is closely related to observing the design principles of: finance following [clear assignment of] functions; informed decision making; adherence to local priorities; and accountability. However, applying these principles in practice has not proven to be simple. Country circumstances differ, often in subtle and complex ways, consequently the policy and institutional instruments that establish decentralization have to be shaped to the specific conditions of individual countries

Failure to design enabling policies, which support the planning and management process has resulted in uncoordinated efforts to downsize government – or its involvement – and empowering rural élites with little commitment to sustainable management and equitable sharing of resources. Central forestry agencies and local organizations alike have struggled to identify and adapt to their new roles. Financial resources, capacity and understanding of legal implications and responsibilities are often in short supply at the local level. Other problems include: (1) interest groups vying for authority and control over decentralized processes; (2) forestry agencies devolving responsibilities but not authorities and controls; (3) inadequate capacities at the local level for handling new responsibilities; (4) designation of inappropriate areas handed over for management; (5) unclear legislation; (6) lack of trust among local people who sometimes view new initiatives with skepticism; (7) inadequate communication and flow of information; and (8) difficulties in securing funds for pilot projects.

As government departments at all levels, local organizations and forest users struggle with the adaptive approaches and innovative institutional arrangements for forest management, there is a pressing need to explore the issues and assess the experiences gained so far to avoid pitfalls, to capture

the opportunities decentralization and devolution offer, and to identify viable frameworks for moving initiatives forward.

But decentralization is not a panacea, and it does have potential disadvantages. Decentralization may not always be efficient, especially for standardized, routine, network-based services.

- ❑ First it can result in the loss of economies of scale and control over scarce financial resources by the central government. Weak administrative or technical capacity at local levels may result in services being delivered less efficiently and effectively in some areas of the country.
- ❑ Second, administrative responsibilities may be transferred to local levels without adequate financial resources and make equitable distribution or provision of services more difficult. Decentralization can sometimes make coordination of national policies more complex and may allow functions to be captured by local elites.
- ❑ Third, distrust between public and private sectors may undermine cooperation at the local level. Project and program planners must be able to assess the strengths and weaknesses of public and private sector organizations in performing different types of functions.

Before developing elaborate plans for decentralization, they must assess the lowest organizational level of government at which functions can be carried out efficiently and effectively and -- for functions that do not have to be provided by government -- the most appropriate forms of privatization. Even program planners who do not see 'decentralization' as their primary motive must carefully analyze the types of decentralization already present in a country in order to tailor policy plans to existing structures.

#### **IV Measurement**

Centralization and decentralization are not "either-or" conditions. In most countries an appropriate balance of centralization and decentralization is essential to the effective and efficient functioning of government. Not all functions can or should be financed and managed in a decentralized fashion. Even when national governments decentralize responsibilities, they often retain important policy and supervisory roles. They must create or maintain the "enabling conditions" that allow local units of administration or non-government organizations to take on more responsibilities. Central ministries often have crucial roles in promoting and sustaining decentralization by developing appropriate and effective national policies and regulations for decentralization and strengthening local institutional capacity to assume responsibility for new functions. The success of decentralization frequently depends heavily on training for both national and local officials in decentralized administration. Technical assistance is often required for local governments, private enterprises and local non-governmental groups in the planning, financing, and management of decentralized functions

Characterizing the degree of decentralization is useful for

- ❑ monitoring how the roles and responsibilities of different levels of government change over time within a particular country and to a lesser extent, for cross country comparisons
- ❑ Assessing the design and implementation of decentralization is important for learning if the current arrangements are likely to lead to (a) fiscal imbalance and macroeconomic instability and (b) efficient and equitable service delivery.

According to Ahmad and Bird ( PREM Sector Studies, 1998) Decentralization involves the shifting of fiscal, political and administrative responsibilities from higher to lower levels of government. Throughout the world, countries have been enthusiastically embracing different aspects of decentralization, particularly during the past decade. Because the motivation and design of decentralization differ in each country, it is extremely difficult to compare a single notion of "decentralization" across countries.

To characterize the decentralization taking place in a given country at a point in time so that the roles and responsibilities of different levels of government can be compared across countries, and most importantly, so that those decentralization policies that have significant impacts can be monitored over time within a country,

Ahmad and Bird (1989) developed a toolkit which is structured into two major sets of questions to help the analyst in a particular country:

- characterize decentralization (i.e. how much/what kind of decentralization exists in the country), and
- assess the design of decentralization (i.e. are there particular design or institutional arrangements which are likely to lead to a "soft budget constraint" and become problematic?)

Four points should be stressed at the outset<sup>1</sup>:

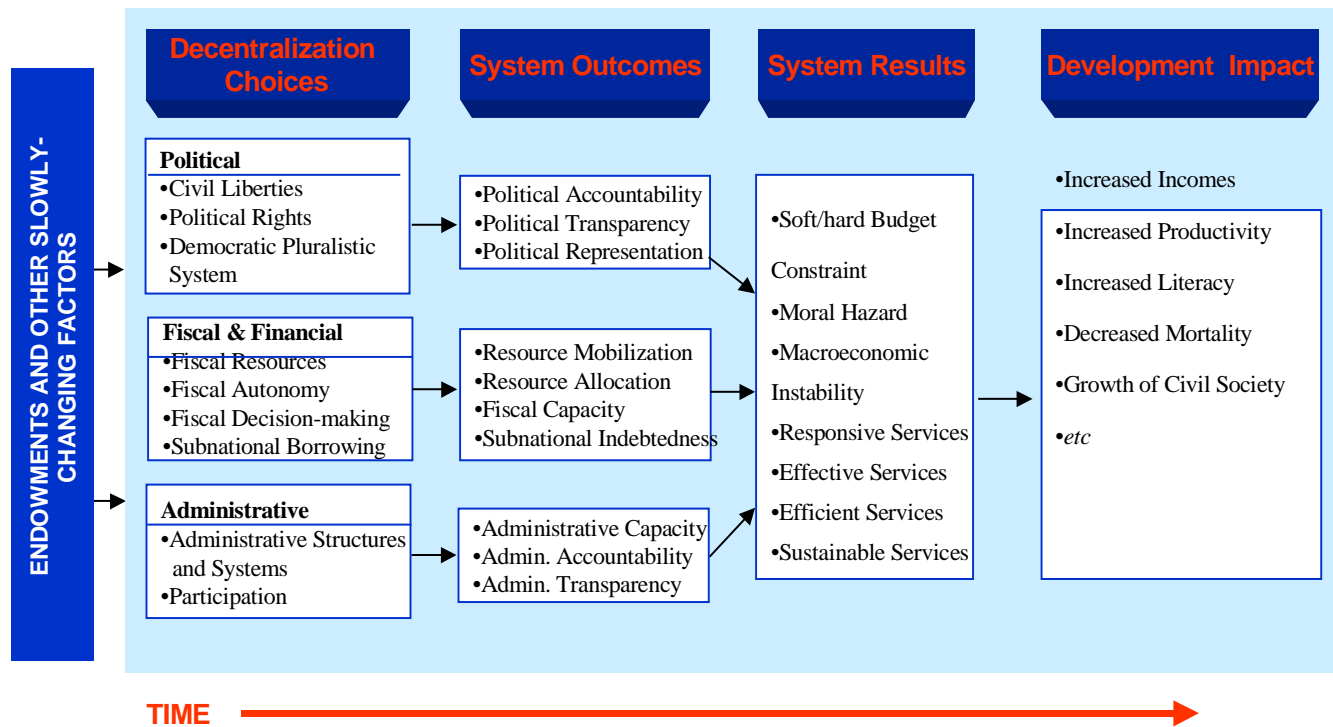
1. There are several different forms of decentralization which can exist within a country (and indeed, sectors within a country can be characterized by different forms of decentralization). "Deconcentration" occurs when the central government disperses responsibilities for certain services to its regional branch offices. This is the mildest form of decentralization since it does not involve any transfer of authority to local governments. "Delegation" refers to a situation in which a central government transfers responsibilities for decision making and administration of public functions to local governments or semi-autonomous organizations that are not wholly controlled by the central government but are accountable to it (i.e. principal-agent relationship). Finally, "devolution" is a more extensive form of decentralization whereby the central government transfers authority for decision making, finance and management to local governments that have clear and legally recognized jurisdictions over which they exercise authority, within which they perform public functions, and to whose constituents they are accountable. This is usually considered *true* decentralization – it holds the most promise but also poses the greatest risk. Much of the literature on decentralization focuses on devolution; however, in many developing countries, discussions are focused on the milder forms of decentralization.
2. In general, decentralization is neither good nor bad. If designed well it can move decision making closer to people and improve governance, including the efficiency of service delivery. However, "design" is extremely complicated since it involves political, fiscal and administrative policies and institutions which individually and interactively affect outcomes. If decentralization is not designed well, or introduced in certain types of environments, it can have negative impacts. The key challenge is to balance responsibilities with accountability and resources.
3. In practice, there is often a big difference between formal arrangements for decentralization and what is actually happening in the country. Thus, any analyst of decentralization must start by looking at the formal arrangements (i.e. constitution, laws, regulations and policy discussions) but must also look at the actual practices.
4. An absolutely essential element of decentralization is the need for a clear division of responsibilities and a clear system of accountability. There is no "perfect" set of intergovernmental arrangements which will remain in tact indefinitely – central and local officials must be accountable to their constituents to ensure effective governance.

Although we know that decentralization is usually driven by politics, we also know it can have profound effects on economic outcomes such as macroeconomic stability, efficiency and equity. Whether or not a "hard budget constraint" exists between levels of government is critical for determining the likely impact on macroeconomic stability and often on service delivery. The toolkit of Ahmad and Bird (1998) proposes a series of questions about policies and institutions which can help an analyst determine the likely impact of decentralization on macroeconomic stability.

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<sup>1</sup> For an elaboration of these issues see *Rethinking Decentralization in Developing Countries*, Litvack, Ahmad and Bird, PREM Sector Studies, 1998.

# Indicators of Decentralization The Soufflé Theory



To characterize decentralization, one must consider political, fiscal, and administrative issues. All these components must complement each other to produce more responsive local governments that will deliver effective, efficient and sustainable services and maintain fiscal discipline. This has been referred to as a Soufflé Theory (see diagram below).

**Source:** Adapted from Parker, Andrew N. 1995, *Decentralization: The Way Forward for Rural Development?* Policy Research Working Paper 1475. The World Bank, Washington, D.C.

Fiscal, political and administrative policies and institutions in a particular country will affect political accountability, fiscal soundness, and administrative capacity at both the national and subnational levels. This in turn affects service delivery as well as the prevalence of moral hazard, a soft (or hard) budget constraint between levels of government, potential for macroeconomic instability and ultimately this affects development impact.

**In the range from centralization to decentralization one can make use of the indicator-set containing the following scales**

**Political scale of decentralisation:** answer each question for each level of government

1. Are governments elected ?
2. Are there multi-party elections?
3. Are ballots cast secretly in government elections?
4. Are elections held at regular intervals?
5. Are elections free and fair?
6. Does the center have the authority to override results of local decisions?
7. Is the head of local government elected directly, indirectly or appointed?
8. How effective is civil society at keeping a check on local corruption (e.g. through budget or anti-corruption watchdogs, media etc.)

### Administrative scale of decentralisation

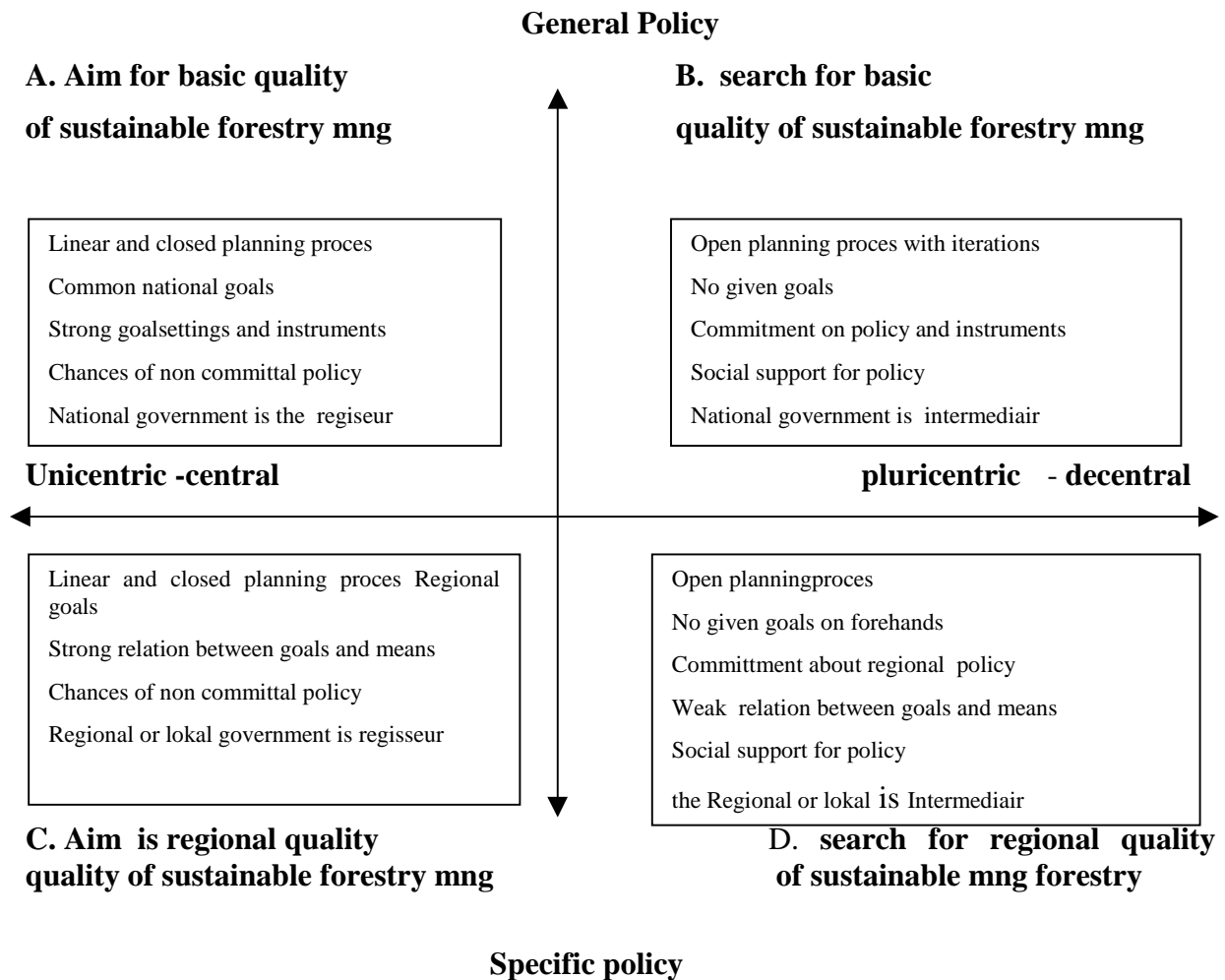
1. Is this a federal or unitary country?
2. In practice, where does sovereignty lie (e.g. even in federal countries such as South Africa or India, the sovereignty lies at the center unlike the US where it lies at the state level)
3. list the administrative tiers of government?
4. What tier of government is responsible for determining the salary and hiring of civil servants at each level of government?
5. Who approves the line item budget at each level of government?

### Fiscal scale of decentralisation

1. What share of general government spending is incurred at the national level as own spending ? (*For reference: OECD, LDC*)
2. What share of general revenue is raised and retained at the subnational level? *For reference: OECD, LDC*)
3. What percentage of subnational expenditures is financed by intergovernmental grants? (This is often referred to as “vertical imbalance) (*For reference: OECD, LDC*)
4. What percentage of local expenditure is financed from local revenues?
5. What percentage of subnational expenditure is financed through “shared revenue”?
6. What percentage of local expenditure is financed through extra budgetary funds? . (If unable to answer this, then answer “How important are extra budgetary funds to local finance?”
7. What share of aggregate public expenditures do subnational governments have effective control over (i.e. can spend at their own discretion)?
8. Are norms (“minimum standards” or “budget norms”) used to determine the subnational budget?

Other scales of this tool-kit are available for assessing the design of intergovernmental relations; fiscal channel, capital market channels and the political mechanism for subnational fiscal discipline. In the USA/DS Decentralization and democratic Local Governance Programming Handbook one could look for other sample indicators

By combining the measurements of different types of decentralization ( political, administrative, fiscal, and market decentralization) selected within a country, the **design** (which will depend on the political structure and administrative issues of that country) the **impact** of decentralization (which will depend on the **conditions** of decentralization ) and **the objectives of decentralisation** (the aim or the search for sustainable forestry management), four approaches of decentralization processes, dealing with sustainable forestry management, can be described.



**Low degree of decentralisation:** if most of the decisions and especially the most important ones are made by one person, then the organization is categorized as centralized (Hage 1997, p.127).

Orientation A and C are exemplaric types related to the process of centralisation. Orientation A is based on ex-ante formulation of results and ex-post – evaluation of social support. Risks are well known – ineffective policy-implementation. The need for information grows and new instruments will be developed to get a stronger hold on the social developments. In Orientation C, due to decentralisation of policy development to the regional level, but in the constrains of the national policy, specific regional goals and quality can be developed

- The sub-systems have no powers and responsibilities in policy formulation; they just su authority the central authority in policy implementation
- The degree of free decision-making of the sub-systems is regulated by a narrow choice-set.
- The sub-systems are financially dependent on the central authority.
- The central authority can enforce policies against the will of the sub-systems.
- The sub-systems do not participate in decision-making of the central authority.

**High degree of decentralization:** If most members of the organization participate in its decisions, then the organization can be considered to be decentralized. (Hage 1997, p.127).

Orientation B and D are exemplaric types related to the process of decentralisation. Orientation B is based on an ex-ante evaluation of social support and ex-post formulation of results. Risks are generality of policy and weak effect of solutions. With the expertise of local and regional administrators the regional policy is developed. Condition for this strategy is the democratically chosen representative in the policy process. Orientation D of this typology is based on co-production of different stakeholders. Characteristics are policy-making in a circumscribed area and iteration between the different phases in the policy process. Central theme is the common interest in specific problems. Condition for this approach is the knowledge of supporting actors and the generation of many initiatives and instrumental package deals.

- Powers and responsibilities in policy formulation and implementation are transferred from a central authority to autonomous sub-systems
- The degree of free decision-making of the sub-systems is regulated by a wide choice-set.
- The sub-systems are financially independent from the central authority.
- The central authority cannot enforce policies without affirmation of the sub-systems.
- The sub-systems participate in decision-making of the central authority.
  
- Real decentralization requires that subnational levels have flexibility to determine at some of their own priorities
- Local residents are more likely to hold their leaders accountable for their spending decisions when their tax revenues are spent locally

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