I. Definition of decentralization

Decentralized government institutions are doing more of the work of government than ever before, but there is a little agreement about what decentralization means and how it should be measured.¹

Researchers attach a startling diversity of definitions and measures to the decentralization concept. Some might consider this proliferation necessary to account for a wide variety of cases. Others might consider that the proliferation of meanings and measures erodes precision and impedes the ability to assess types of decentralization. The problem is worsened by the evaluative nature of the decentralization concept, which leads to conflate decentralization with other concepts, especially those that are also imbued with positive values,² such as democracy or market reforms. The result is that there is little agreement

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² “The magic word of ‘decentralization’ often occurs in the title and core content of reform documents reflecting the major trends in contemporary professional and political discussion of the state and governance as a single summary term.” G. Péteri, V. Zentai, Lessons on Successful Reform Management, [in:] (ed.) G. Péteri, Mastering

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about what constitutes an example of decentralization, what causes decentralization and what effects it is likely to have.

Instead of using the well-known classification of advantages and disadvantages\(^3\) of decentralization, we distinguish three core dimensions\(^4\) of decentralization: fiscal, administrative and political. Fiscal decentralization refers to how much central governments cede fiscal impact to non-central entities. Administrative decentralization refers to how much autonomy non-central government entities possess relative to central government. Finally, political decentralization refers to the degree to which central government allows non-central government entities to undertake the political function the government, such as representation. These elements are interdependent, they interact with each other.\(^5\)

Decentralized systems are those in which central entities play a lesser role in any or all these dimensions. In such systems, central governments possess a smaller share of fiscal resources, grant more administrative autonomy and cede a higher degree of responsibility for political functions.

II. Driving forces behind the decentralization

It is a well-known fact that in the eighties and the early nighties the decentralization of different political systems became one of the main instruments to solve problems. Stagnant economies and inefficient

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\(^5\) Decentralization along one dimension could be related to one set of causes and effects, and decentralization along another dimension could relate to a different or opposite set of causes and effects, see A. Schneider, *Decentralization...*, p. 35.
central bureaucracies led politicians and researchers to consider de-centralization as a solution to the problems of developing countries.⁶

There were domestic pressures⁷ for decentralization, too, as local politicians and civil society actors sought to capture power from central governments, and national leaders granted access to central power and resources as a means of obtaining support from local allies or meeting demands for decentralization. Ideological support came from the right and the left for different reasons, the former to increase efficiency and the latter to effect a different distribution of power. Additionally, free trade, international treaties and loan conditions led central governments to choose or be forced to abdicate their traditional roles, and left critical functions to non-central entities if they were performed at all.

For example, in the Central and Eastern Europe⁸ there was a real demand from local level for democratic control and autonomy due to the failures of the centralized state over the previous four decades. Similarly, in several countries in Latin America⁹ the return to democratic government in the 1980s and 1990s generated a demand for local democratic control.

In addition, there are those at the national level who perceive the potential economic, administrative and political advantages of de-centralization. In many cases, the centre has had to recognise and respond to regional territorial interest or to appease aggressive movements.

In some parts of the world, decentralization of the states has been a response to actual or potential regional conflicts. Indonesia, which until 1990 was extremely centralized, has undertaken a far-reaching decentralization of powers and resources. But this has not been driven

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⁶ See the examples of Nigeria, Ethiopia or the Philippines.
⁷ Guatemala, El Salvador.
⁹ Bolivia, Venezuela.
so much by democratic demands from the local level as by the combination of local elite interests and the fear within the central government of secession by resource-rich regions. Similar pressures reinforced by ethnic divisions are observable in Russia, Nigeria, or Sudan.

Decentralization has been seen in some countries as a way of reconstruction of the state affected by various conflicts such as ethnic diversity. The post-apartheid reconstruction in South Africa strengthened the sub-national levels by adopting the separate spheres of government. The reconstruction in Iraq\textsuperscript{10} – although imposed from the outside – also involved a strong emphasis on the elected local government.

Decentralization is also often adopted by national-level elites as a strategy for mobilizing and maintaining the regional power basis. In particular military regimes\textsuperscript{11} have at times perceived decentralization as a way to consolidate political power at the local level against the opposition forces at the centre.

In addition, pressure is coming from international agencies, like the World Bank, the UNESCO, the European Union, etc. These agencies, concerned about the failure of central government to deliver services efficiently and to address poverty, have endorsed the economic arguments for decentralization. The ideas tend to coincide with the neo-liberal agenda of reducing the role of a central state. Under the buzzword of “good governance”, the World Bank and other donor agencies have advocated, and even required, decentralization in a number of countries in Europe, Asia and Africa, with varied results.

However, especially now after the huge economic and financial crises in 2008–2009, there is an increasing scepticism about whether decentrali-


\textsuperscript{11} The case of Pakistan could be an illustration of this statement.
zation is delivering on its promises, particularly because of the evident weaknesses of local-level democratic processes in so many countries.

Certainly, there are many valid economic and administrative arguments\textsuperscript{12} for decentralization. But in fact, in many countries decentralization has been driven less by the force of these arguments or by local-level democratic demand, and more by the interests of local and national elites, by certain political realities and by external pressures. This has undoubtedly affected the outcome.

Moreover, even the most ardent proponents generally recognize that decentralization reforms are not the panacea for a nation’s historically accumulated social and political ills. Likewise, they tend to see the benefits associated with the process as coming to fruition in the medium-term rather than overnight. Nonetheless, a central assumption among the decentralization advocates tends to be that the design and (to somewhat lesser extent) implementation of the reform package are the principal determinants of success.

\section*{III. Some aspects of democratic decentralization}

The success of decentralization depends on several factors\textsuperscript{13} in a particular context of each country. Nevertheless, it is possible to identify a number of common issues:

\begin{itemize}
\item The size of decentralized units and the number of levels
\item Structures for democratic accountability
\item Mechanisms for citizens’ engagement
\item Finance
\item Central-local relations
\item Impact on service delivery
\end{itemize}

\textsuperscript{12} See, for example, M.S. de Vries, \textit{The Rise and Fall of Decentralization}…, pp. 197–199.
\textsuperscript{13} According to J.J. Ryan, the success of decentralization depends on three contextual variables: (1) socio-political realities, (2) the dynamic of reform process (bottom-up versus top-down), (3) the timing and sequencing of the proposed reforms (what is being decentralized and when); J.J. Ryan, \textit{Decentralization and Democratic Instability: The Case of Costa Rica}, Public Administration Review, Vol. 64, No. 1, 2004, p. 82.
1. Size of decentralized units

In debates of decentralization, the size\(^{14}\) does matter because of the impact on democratic participation and political accountability, on the one hand, and economies of scales and policy coordination, on the other.

In the Central and Eastern Europe, the demand from below to manage affairs locally has resulted in most of these countries in small local units of government. In Hungary, for example, every village has its own right to manage local affairs, regardless of its size in terms of population, territory, population density, economical and institutional background, etc.

Over the last 25 years, on the basis of experiences it has become clear that the small units usually are not able to provide good, quality services. Small villages – particularly of less than 1,000 inhabitants – do not have the necessary financial, organizational, personal and institutional background. To overcome these shortcomings, neither the one-purpose nor the multi-purpose micro-region\(^{15}\) becomes successful. The main cause of the failed inter-municipal cooperation have been the missing cultural roots\(^{16}\) and traditions of this type of mechanism. This statement is true especially for the Eastern European countries like Hungary and Slovakia. Although extra financial resources could provide some new incentives, at least temporarily, to cooperate better than earlier, without additional money the artificial unity falls apart very soon.

Due to its fragmented structure, the Hungarian local government has not been a suitable institution to diminish the basic territorial


\(^{15}\) Act of CVII 2004 on the micro-regional association of local self-government.

\(^{16}\) In France, for example, very small units can overcome their shortcomings using different forms of cooperation in their service practice.
and cultural differences among different regions and to provide quality services to local citizens. On the contrary, territorial and cultural differences have grown significantly in the country over the last decade.

Due to several shortcomings of the system (obscure responsibilities, inadequate financing, etc.), the Hungarian government has finally decided to consolidate the local and county level, and has gradually taken over the entire debt of small and bigger settlements. In addition, traditional local responsibilities, like the provision of primary education and basic health and social services, have become state responsibilities again.

Of course, the political and professional debate is still going on whether, after the intervention of the state, the former autonomy of the local government still exists or has mostly disappeared. The question is still open, and the political and professional debate has been going on.

In 1990, the basic principle was that the meso-level could not fulfil an integrative, controlling role over settlements. County councils obtained weak legitimacy from the political point of view, too, gaining tasks and resources according to the remainder principle. The legislation provided very limited tasks to the second level of the Hungarian local government (county), namely the maintenance of different health, cultural, sport, educational, etc. institutions. After the consolidation of the system, the county level also has lost its main responsibilities, except some minor tasks in the field of territorial development.

To sum up the structural particularities of the Hungarian local government, it must be highlighted that the structure favouring the absolute autonomy of the basic level has inevitably led to the extreme fragmentation of the system. The contradiction of the small size and

17 There are many voices for changing models. The fact is that the previous too wide scope of responsibilities has been greatly reduced.
the large responsibility\textsuperscript{18} has never been unlocked, so the overemphasized political decentralization is generally counterproductive. Although according to the law on local government every local unit can do anything in local cases within the framework of the law, practically this provision was not more than an empty gesture mostly without the real content. The missing viable size caused serious problems, particularly in the field of technical services; in addition, the expectation that the small units could help better the participation was unfulfilled.

There is quite controversial evidence about the impact of the size on the citizen participation as well. While it is supposed that in smaller municipalities citizens feel better informed and have better access to local councillors, and the electoral turnout is generally higher, in larger municipalities there are more candidates and a greater civil society engagement.

In Hungary, research has found that there is less effective citizen participation in very small municipalities than in larger centres. Participation depends on several factors, such as political, cultural traditions, the role of civil society and the political parties, and the current mechanism of participation. From the point of view of participation, the size of a settlement is not a decisive factor, and a direct and close connection between the size of the settlement and the participation is more than questionable and, in fact, not proved.

On the basis of international experiences, it can be said that there may be need for more than one level of sub-national government. This means that certain decision-making can be brought to a level with which ordinary people identify – village, ward, and town – at the same time providing the executive capacity at the intermediate level.

\textsuperscript{18} It is said that the structure of Hungarian local government follows the pattern of Latin model (France, Italy, Spain), but the functions are very extensive like in the Scandinavians countries (Sweden, Finland and Denmark).
It seems also clear that, except for the smallest countries, there is a need for something between the central and local government to provide coordination between local governments and to ensure that services of scale of economies are properly provided.

2. Structures for democratic accountability

In many countries decentralization followed closely of the process of democratization. Prior to that, local government was regarded as an agent of the central state, with key officials appointed or elected by the centre, and minimum or usually formal opportunity for citizens to have a voice in local decision-making.

One of the major developments affecting European local authorities concerns the dynamics of institutions and local democracy. Despite the great variety of processes and reforms involved, a common tendency can be identified: that of seeking to establish a political leadership that is clearly accountable to its citizens. Promoting local executive power, as distinct from the assembly, is widely regarded as a necessary means for strengthening political leadership and accountability.

Democratization at the local level raises questions about which models of local-level political structure have the greatest chances of achieving democratic accountability and responsiveness, while also delivering essential local public services effectively and efficiently.

Practically, there are two main models of executive structures in local government: the single executive (a directly elected executive mayor)\(^ {19} \) and the plural executive (a mayor plus an executive committee, or a leader plus functional committees of the council). The local government system is fairly evenly divided between the directly elected mayor model and the indirect executive model. After 2010, the model of the directly elected mayor was preferred by several European coun-

\(^ {19} \) This mechanism is used, for example, in Germany, Hungary and Slovakia.
tries, even in Great Britain, where the traditional committee\textsuperscript{20} system has dominated over the centuries.

The advantage of the single executive is the effective decision-making and the clear lines of accountability. However, much depends on the details: electoral arrangements, the mayor’s tenure of office, the council’s power of scrutiny and veto, and the role of the council’s members. The plural executive model offers a greater opportunity for the council members to have a voice on behalf of their constituents in the council’s decision.

Neither of the arrangements guarantees responsiveness to citizens, transparency of decision-making or accountability; each of these issues needs to be addressed in a specific way, whatever the local arrangement.

From the point of view of democratic accountability a ward base election can provide a direct link between citizens and councillors. By contrast, the proportional representation system produces a more representative elected chamber, including greater representation of minorities, but reinforces the position of political parties.

In some countries of Europe,\textsuperscript{21} there is a low or declining voting turnout at local elections. This is partly a reflection of a general alienation of citizens from the political process. The voting turnout varies largely depending on local conditions and political arrangements.

3. **Mechanisms for citizens’ engagement**

Another continuous debate is the relationship between local governments and more direct forms of citizens’ engagement in the decision-making process. In the traditional model, local government

\textsuperscript{20} In spite of the legislation on the directly elected mayor in Great Britain, this is only an option to local voters, not an obligation. As a matter of fact, this alternative has been chosen quite rarely by local authorities.

\textsuperscript{21} Usually, this number is below 50% in the Central, and especially, in the Eastern European Countries.
periodic elections are often seen as the sole mechanism of citizens’ participation and accountability. Nowadays, such a model is widely regarded as inadequate. No doubt, elections are a crude mechanism\textsuperscript{22} for achieving local accountability and a medium of expressing the citizens’ view about specific local policy choices.

We have to admit as well that local elections are often dominated by personalities, party relationships, and may effectively exclude significant sections of population. There is often little room to inform about policy alternatives and limited access to information\textsuperscript{23} about the real performance of those in power. Local elections need to be supported by opportunities for more direct citizens’ participation in decision-making and by more information about the availability and use of resources.

In addition, the emergence and real influence of civil society that is capable of engaging efficiently in local government is badly needed.

The inadequacy of representative democracy in many countries has led international agencies to support the development of civil society organizations as counterweights to the central government. However, more direct forms of participation are not problematic at all. We can experience quite often that participatory processes may be dominated by unelected and unaccountable groups. Thus, local decision processes need to be carefully designed to ensure balance and inclusion, with ultimate responsibility resting with those who are democratically accountable.

Over the last decade of experiencing the Hungarian local government it becomes clear that the impact of the size of a local unit on citizens’ participation is less obvious. Usually, in smaller municipalities, citi-

\textsuperscript{22} In this case, elected councillors usually making decision behind closed doors.

\textsuperscript{23} To handle properly the information asymmetry between elected councillors and voters is a real challenge everywhere in Europe and on other continents, too. The suggested model is, for example, that in: V. Lowndes and L. Pratchett, *CLEAR: Understanding Citizen Participation in Local Government – and How to Make it Work Better*, Local Governance Brief, Vol. 9, No. 1, 2008, pp. 7–12.
zens feel better informed and have a better access to local councillors and the mayor. The electoral turnout is generally higher but in larger municipalities there are more candidates and a greater civil society’s involvement. Contrary to the above assumption, there is a less effective citizens’ participation in very small municipalities than is larger centres. Therefore, arguments for decentralization from the point of view of participation are not reliably justified.

4. Finance

Decentralization is very often founded on issues of capacity and resources, above all financial resources. Fiscal decentralization can improve the autonomy of local units, so in this way, they can have a real independence using different resources.

Financial autonomy is the basis of local self-government, as stated in Article 9 of the European Charter of Local Self-Government.

In the practice of the Central and Eastern European local government after the political transition, one of the main challenges was to achieve a fine balance between responsibilities and available resources. The basic rule is quite clear theoretically but extremely difficult to implement practically: no finances will be transferred until functions have been assumed.

In Hungary, the huge number of local authorities with small-size and limited organizational, professional and financial capacities has been

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24 G. Gorzelak identified six myths about local government which in the post-socialist countries had contributed to false expectations: (1) the myth of local autonomy, (2) the myth of prosperity, (3) the myth of property, (4) the myth of omnipotence, (5) the myth of eagerness, (6) the myth of stabilization. M. Illner, Territorial Decentralization: An Obstacle to Democratic Reform in Central and Eastern Europe, [in:] (ed.) J.D. Kimball, The Transfer of Power. Decentralization in Central and Eastern Europe, Local Government and Public Service Reform Initiative, Budapest, 1999, p. 27.

25 The opposition against fiscal decentralization is stronger in transitional and developing societies than in industrial countries. It is said that centralization favours stabilization, economic growth, and regional equity.
unable to fulfil the requirement of quality local services. There has also been very few chances to levy local taxes,\textsuperscript{26} so they badly need central financial support.

Local own resources have often been seriously inadequate with regard to responsibilities assigned, while intergovernmental transfers are vulnerable to political manipulation, based on poorly designed allocation formulae and inappropriate conditions.

In view of the weaknesses of local democratic practices in many transitional countries and the fact that much of the resources for local services comes from the central budget, central governments have a continuing role in ensuring that services are delivered effectively and resources are properly used at the local level.

In Hungary, after several unsuccessful attempts to encourage local authorities to cooperate and in this way to achieve a viable size, in 2011 the current Hungarian government decided to consolidate the different tiers of local units. The price was quite high: renationalization of some basic, traditional local services.

Considering this very remarkable step, it can be said without exaggeration that political and administrative decentralization is a necessary but not sufficient condition to achieve a real and stable, viable local government. The financial autonomy is – at least – as important as the political and administrative one.

In 1990, after the political transition, the Hungarian legislator did not pay any attention to the several requirements (aspects) of local autonomy, only one value was preferred and overemphasized, namely the political autonomy. Nowadays, it has already been recognised that without the necessary financial, professional and organizational back-

\textsuperscript{26} Property tax is generally held to be the most appropriate for local taxation because of the localization of the tax base. But this tax is dependent on the existence of a fully functioning land register. Another option is to levy tax on economic activity. This is a significant local source of finance in Hungary.
ground the political autonomy is nothing more than an elegant empty slogan, without real content.

It has also become clear and widely accepted by politicians and professionals that the right to have quality services everywhere in the country is as important as to have political autonomy. In other words, the basic constitutional rights to equal services are as significant as ensuring local autonomy.

5. Central-local relations

At the centre of the debate about local democracy and decentralization is the relationship between the central and local government. There is an obvious tension between the local autonomy and the central control. The demand in 1989 for local autonomy in the Central and Eastern Europe swept away many overbearing central controls. In these states the range of material tasks for which local authorities are responsible is vast, especially where they are the heirs to local bodies formerly controlled directly by the central government.

One example is from the Hungarian Law on Local Self-Government of 1990 which gave the local government unrestricted power (pendulum effect). At that time, the central supervision of the local government was weak and ineffective. The outcome of this process was a continuously growing debt of local and bigger units (cities, counties) because they were unable to maintain their institutions, not to mention the delayed development programmes. To overcome the operational and financial problems and to avoid serious financial crises, it was necessary to basically the financial systems\(^\text{27}\) of local authorities and the central-local relationship as well.

Since 2011, instead of having a very soft and not really efficient controlling mechanism, a strict supervision by the state administrative offices\(^\text{28}\) has been in place to prevent indebtedness, loans, and credits.

\(^{27}\) In 2011 a new, functional financial system was introduced.

\(^{28}\) In Hungary, there are 19+1 county governmental offices.
Devolution requires a change of culture and practice within the central government. It involves a shift from a direct role in service delivery to enabling and monitoring the work of local governments and other agencies at the local level. This involves the development of a capacity to effectively monitor and verify, and systems that prevent rent-seeking behaviour. The central government is also expected to deal promptly with requirements for approval of agreed grants and revenue sharing on time, and to seek to reinforce good practice at the local level.

6. Impact on service delivery

Decentralization is primarily about local identity, representation and decision-making. This has generally been the case in the countries of the Central and Eastern Europe, especially in the early stages of their development.

From the point of view and in line with the intention of international agencies,29 decentralization is seen as an instrument improving service delivery, reducing inequalities and diminishing corruption. The intention of donor agencies for decentralization is premised on the notion that bringing decision-making closer to beneficiaries increases citizens’ participation and accountability, gives greater voice to the people, and improves service delivery.

International experience shows that decentralization has benefits in terms of extending citizens’ participation and accountability, but it has little impact on inequality or poverty. Much depends on the particular way in which decentralization takes place, including how resources are distributed and managed, and the mechanism by which decision-makers can be held accountable.

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29 “If there is no clarity over what the state will provide and under what conditions, how then can one think in terms of effective decentralization?”, A.J.G. Verheijen, Removing Obstacles to Effective Decentralization: Reflecting in the Role of the Central State Authorities, [in:] (ed.) G. Péteri, Mastering Decentralization…., pp. 46–47.
We can also draw a very important conclusion from the international practice. Where the state fails to fulfil its basic functions, decentralization can be counterproductive, but in countries that perform their functions, decentralization can be a powerful tool.

IV. Instead of conclusion

Decentralization has been a major feature of the governance agenda over the last decades. In the Central and Eastern Europe, devolution and local government autonomy were fundamental elements of the democratisation process.

The evidence on the effects of decentralization is varied and contested. The outcome of decentralisation depends to a considerable extent on the motives for adopting that policy and the relative power and influence of the different actors involved. However, one main point needs attention. Local services have to be delivered out there rather than at the centre. Thus some form of decentralisation is essential whether it be by devolution to the elected local government or by deconcentration. What really matters is how the system is designed and implemented.

Although the design is important, decentralization reforms are nearly always the product of short-term political necessities and compromise, and not of long-term comprehensive planning. Rarely, is careful attention given to key contextual variables, which may prove critical in determining the ultimate effectiveness of the reforms.

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31 Citizen satisfaction, accountability, service delivery, reduction of social inequalities.
32 It is paradoxical that apathy towards local institutions, as reflected in the increasingly low voter turnout in local elections, is manifesting itself at a time when the powers, tasks, and independent decision-making of local authorities have markedly increased in most countries.
The preconditions for the successful decentralisation are: appropriate size, number and level of local units to achieve a fine balance amongst identification, representation and scale required for efficient local services. Financial arrangement is necessary to provide reliable, adequate resources leaving enough discretion to local decision-makers. And last but not least, we need supportive central and local relations and vibrant civil society.