

# Institutional Features of a Developmental Local Government

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## Abstract

*Ethiopia, like many other countries, has been implementing a decentralization program predicated on eradicating poverty. This raises the question of whether the program's institutional design is suited to its purpose, which then leads to a broader question: What is the best institutional design for a decentralization program aimed at poverty reduction? This article sets out to answer the question, arguing that a decentralization program aiming to advance development must balance local autonomy with central supervision.*

## 1. Introduction

As the introductory article noted, the decentralization of powers, functions and resources from central government to subnational governments and the growing influence of the latter in economic and political matters are seen as major trends of the 21<sup>st</sup> century (World Bank, 1999, p. 107). It is not, therefore, at issue whether a country should decentralise or not, since there is internal and

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external pressure on states to do so.<sup>1</sup> What is at issue is the purpose for which the country decentralizes and how best to design its system of decentralization to suit that purpose.

Ethiopia, like many other countries, has been implementing a decentralization program predicated on eradicating poverty. This raises the question of whether the program's institutional design is suited to its purpose, which then leads to a broader question: What is the best institutional design for a decentralization program aimed at poverty reduction? This article sets out to answer the question, arguing that a decentralization program aiming to advance development must balance local autonomy with central supervision. The article begins by considering the meaning of "development", after which it discusses the link between decentralization (local government) and development; lastly, it turns to a discussion of the ideal institutional design of a developmental local government.<sup>2</sup>

## 2. Development as the Opposite of Poverty

The concept of development has gone through half a century of evolution. For several decades in the first part of the 20<sup>th</sup> century, it was discoursed upon in the context of what the West could and should do to bring the so-called Third World on par with it in terms of economic prosperity and public services. Third World countries, despite having gained political independence, were

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1 A number of regional and international agreements, though not necessarily binding, require states to decentralize. These include the African Charter on the Values and Principles of Decentralisation, Local Governance and Local Development (2014); the European Charter of Local Self-Government (1985); and the Charter of the City of Aberdeen (2010). In addition, various national and international local government organisations have been established to advocate for decentralization of power to local government. The South African Local Government Association is among the key such associations in Africa. Important among international organisations of this kind is the United Cities and Local Governments (UCLG), which declares that its objective is "[t]o be the united voice and world advocate of democratic local self-government, promoting its values, objectives and interests, through cooperation between local governments, and within the wider international community". The UCLG has African branch association. See <<https://www.uclg.org/en> > accessed 21 March 2018.

2 For this article, one of the two co-authors, Zemelak Ayele, has drawn on his previous work, in particular Ayele (2014).

characterised by rampant poverty, illiteracy, short life expectancies, high rates of maternal and infant mortality, and other social ills. Development was thus conceived within the context of finding solutions to these social and economic problems (Rapley, 2002, p. 10).

The discourse was focused on how such countries could achieve economic growth through industrialisation and increase their per-capita income, but little attention was paid to whether and how economic growth would benefit the ordinary people in the form of education, health services, drinking water, food, and the like. These were assumed to be natural consequences of economic growth. However, the countries neither achieved this sought-after industrialisation, nor did it happen that, save in a few instances, economic growth translated into better social services and individual well-being of individuals. This in turn led to a reconceptualization of the notion of development.

There was, as such, a shift from viewing development as mere economic growth to considering the welfare of individuals. The World Bank came to define development as “sustainable improvements in the quality of life for all people ... by reducing poverty, expanding access to health services, and increasing educational levels” (1999, p. 13). In other words, development was the opposite of poverty, with poverty being a “pronounced deprivation in well-being” – it is not merely economic deprivation in the form of low income and consumption, but includes lack of education, poor health, “voicelessness” and “powerlessness” (World Bank, 1999, p. 15). Amartya Sen thus views development as a process of removing “poverty, tyranny, poor economic opportunities as well as systematic social deprivation, neglect of public facilities as well as intolerance or over-activity or repression”, all of which are sources of “unfreedom” (2001, p. 1). In the human rights discourse, development is defined as

a comprehensive economic, social, cultural and political process, which aims at the constant improvement of the well-being of the entire population and of all individuals on the basis of their active, free and meaningful participation in development and in the fair distribution of benefits resulting therefrom.<sup>3</sup>

3 Preamble, General Assembly Resolution 41/128 of 4 December (1986).

It is in this light that the Millennium Declaration committed member states of the United Nations to halve poverty by 2015 and the 2030 Agenda for Sustainable Development committed them to eradicating extreme poverty. In both cases, development is seen as the reduction or eradication of poverty in its various dimensions, including that of hunger, lack of good health and well-being, lack of education, lack of clean water, inequity (inequality), and gender inequality.

Three elements are central to the notion of development as the opposite of poverty: advancing individuals' well-being, advancing equity or social justice, and advancing participation. Equity is understood in different ways depending on the perspective from which it is seen.<sup>4</sup> Here, it is understood as "[a]n aversion to extreme poverty", an aversion deriving from the idea that society "[must] protect the livelihoods of its neediest members (below some absolute threshold of need)" (World Bank, 2006, p. 9). The "active, free and meaningful" participation of those who are meant to benefit from development is also central.

The question is thus how to bring about development that is promotive of well-being, equitable, and a result of, or entailing, "active, free and meaningful" public participation. Scholars argue that this can be achieved through decentralization that seeks to empower local government.

### 3. Local Government and Development

The decentralization of political, administrative and financial powers to local government is increasingly seen as critical for achieving development grounded in the "active, free and meaningful" participation of the community meant to benefit from it.<sup>5</sup>

4 From an economic point of view, equity is about fair distribution of resources, while from a legal point of view, it means applying the law in such a manner that the outcome in a particular circumstance is fair. Philosophically, equity is about creating "a just and fair society" (World Bank, 2006, pp. 18–19).

5 Scholars often tend to write about decentralization as if it were interchangeable with deconcentration, delegation and devolution. Deconcentration is not, however, the same as decentralization in the strict sense of the term, since in this case power is transferred to subnational units of the center. As for delegation, it entails an intergovernmental transfer of power, which would seem to imply that local government then enjoys a degree of discretion in how it exercises this power; however, the center is at liberty

Several arguments are proffered in this respect, including the democratic argument and arguments premised on the value of allocative efficiency.

The democratic argument is that decentralization enhances the degree and quality of direct and indirect public participation. The claim is based on the assumption that development could and should be achieved through the direct and indirect participation of the people, and that devolution enhances electoral participation by creating multiple representative institutions at multiple levels of government (Manor, 1999, p. 8). In so doing, it affords significant opportunities for varying developmental preferences to be represented in political institutions (Crook, 2003, p. 408).

Decentralization is also said to enhance direct public participation by creating small political units (small both in territorial and population terms) that in turn facilitate personal contact between individual citizens, political institutions, and public authorities.<sup>6</sup> This is based on the supposition that the smaller a political and territorial unit is, the more its involvement augments public participation, thereby increasing the extent of public influence on the developmental policies of a government. In short, decentralization creates physical proximity between citizens and public officials. This allows members of a community to have better access to public officials, which in turn allows the former to hold the latter accountable (Tuene, 1995, p. 15; Beetham, 1996, p. 38).

Next, the efficiency argument is based on the assumption that the devolution of power to local government increases institutional efficiency and responsiveness in identifying and implementing development projects, doing so by creating “congruence” between “community preferences” and “public policies” (Crook, 2003, p. 78). This argument is that – as a result of the direct and indirect public participation which it fosters – devolution allows for a smooth flow of information from citizens to government and *vice versa*, making development programs cost-effective, efficient, and “responsive” to the needs of the poor (Robinson, 2007,

to recentralize those delegated powers as it sees fit.

6 See further Teune, 1995, p. 15; Dowding, 1996, p. 53; Beetham, 1996, p. 30. The European Charter on Local Government provides that direct participation is “most directly exercised” at local level. Preamble, European Charter of Local Self-government (1985). See also Hankla, 2009, p. 635; Chhatre, 2008, p. 15.

p. 8; Bardhan, 1996, p. 141). Moreover, devolution enables the simultaneous satisfaction of varying developmental preferences. It also promotes experimentation and the innovation of a wide range of methods for tackling development-related problems through locally tailored policies and plans (De Visser, 2005, pp. 23–24).

The devolution of powers to local government is, however, not always as rosy a scenario as these arguments suggest.<sup>7</sup> It has several downsides that may undermine development. It could open the door for massive corruption; also, devolved powers could be captured by local elites and used for personal gain at the expense of the poor and uneducated. Devolution could deepen inequity in the distribution of resources and services among different localities, given that some localities are likely to be better resourced than others due to natural endowments or, as is the case in many an urban area, to the presence of greater economic activity than elsewhere.

#### 4. Institutional Design of a Developmental Local Government

In the introduction, it was noted that the devolution of powers and resources to subnational governments, including local government, is a global trend to which almost no country could be an exception. Devolution is nevertheless “neither good nor bad” in itself (World Bank, 1999, p. 107). While it has the potential to create opportunities for enhanced development (poverty erad-

<sup>7</sup> Rémy Prud’homme and others question the workability of this argument, particularly in Africa. He contends that the democratic argument for decentralization cannot work in Africa and other developing regions because people in these territories cast their votes on the basis of “personal, tribal, or political-party loyalties” rather than the issues of the day. Local elections in developing countries are thus a mere “rehearsal” of national elections and are seldom used to punish poor performance by local officials, especially since it is well known that these officials lack the resources to meet local preferences even if they have the desire to do so. Likewise, Prud’homme and Adamolekun reject the allocative efficiency argument as based on a misassumption that there are significant differences in the development preferences of the various localities in developing states. In these states, they argue, the priority is ensuring the delivery of basic services, not satisfying “thinly differentiated” local preferences. See Prud’homme, 1995; Adamolekun, 1991.

ication), it has the equal potential to cause problems of governance, such as corruption and elite capture of public institutions, policies and resources.

The experience of the past five or so decades of implementing decentralization programs shows, though, that if they are well-designed, they can maximise the upsides of devolution while minimising its downsides. This raises the question of how to design a devolution program to get the most out of it in terms of advancing development. The short answer is that its institutional design should strike a balance between local autonomy and central supervision.

## 5. Local autonomy

Local government autonomy, as the term itself implies, is about local governments being able to decide on local matters free of interference by senior levels of government. It encompasses three types of autonomy: political, financial and administrative.

Political autonomy presupposes a system of devolution that affords security of existence to the local level of government and its units – security of existence implies a situation in which the central government cannot abolish them at will. This in turn presupposes that local government has constitutional recognition and protection.<sup>8</sup> Political autonomy also presupposes a local government which is run by democratically elected officials (as opposed to appointees) who are accountable principally to their constituencies. This implies the establishment of local political institutions, including local councils and executive organs. Holding regular, free and fair election is also central to political autonomy.<sup>9</sup>

Another important element of local political autonomy is the devolution of relevant and clearly defined functional compe-

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8 Local government lacks constitutional recognition in many a federation, particularly so in classic federations such as the United States and Australia. The trend nowadays, however, is for granting it this recognition. For example, as noted in the introduction, the 1996 Constitution of South Africa recognises local government as one of the three spheres of government, while the 1999 Nigerian Constitution provides for the establishment of democratically constituted local government.

9 This involves electoral issues relating to, inter alia, the administration of elec-

tences. Defining local government functional competences in a national constitution is seen as desirable, since it removes the temptation for a central government to recentralise the functional competences it devolved to local government. In South Africa, for instance, Schedule 4B and 5B of the 1996 Constitution defines functions that are within the competence of local government. Similarly, the Nigerian Constitution has a list of what it refers to as matters within the competence of local government. It is up to each state to devolve some or all of the matters in the list to local government through state statutes. The matters are thus not original local government functions, inasmuch as the local government cannot trace its competences regarding them directly to the constitution. The functional competences should also be suitable to local government in that they take into account the urban-rural character of each local government unit and the financial and human resources at its disposal.

The second form of local government autonomy is financial autonomy, which has two aspects: revenue-raising autonomy and budgetary autonomy. The first is the power of local government to raise the necessary revenue from internal sources by way of levying taxes, collecting user fees, and the like. Property rates are often considered as appropriate taxes for local government. Studies suggest that, to the extent possible, local government should raise the bulk of its revenue from internal sources and minimise

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tions; the question of whether local elections should be held on multiparty lines; and the appropriateness of different electoral systems. For instance, there are arguments for and against basing local elections on the party system. The argument against it is that local government deals with “bread and butter” issues and there should be no divisions along party lines in this regard; in addition, the case is made that partisan local elections are likely to contaminate public policy with patronage, clientelism, and efforts to secure short-term political gains, thereby diverting focus from the essential issues. Party politics also shift the locus of decision-making away from the local community. By contrast, the argument in favour of partisan local elections is that political parties create links between local and central government. Such elections signify recognition of the key role that local government plays in the democratic process. As for the “bread and butter” argument, it does not hold water, given the growing political and economic role of local government. Excluding political parties would deny small parties the opportunities that result from decentralisation. Moreover, political parties can formulate comprehensive policies that synthesize and articulate interests and preferences regarding a wide range of issues, unlike organisations that deal only with specific issues. In any case, political parties are unlikely to refrain from attempting to influence local elections and politics even if they were formally excluded from them. See Packel, 2008; Sisk, 2001.



its dependence on central government. To this effect, adequate internal sources of revenue, including taxes and user fees, should be devolved to local government since its revenue-raising autonomy is critical for maintaining its political autonomy. As McLure & Martinez-Vazquez argue, a local government that depends on the central government for its finances “can never truly enjoy fiscal autonomy” and is most likely “under the financial thumb of the central government” (2000, p. 2).

That being said, local government seldom has complete financial independence from the central government, seeing as its internal financial sources generally yield little revenue and it consequently often has fiscal gaps between its revenue and expenditure. It is therefore likely that local government would require central transfers to fill these gaps. To safeguard the autonomy of local government against any central interference that could arise in this situation, it is commonly suggested that the largest portion of the central transfer should be unconditional so that local government can use it for any purpose it deems necessary. The central government should be required, constitutionally or otherwise, to make such transfers. For example, the national government of Kenya is enjoined to transfer a minimum of 15 percent of revenue nationally raised to the counties. The South African Constitution entitles local government to a portion of the revenue nationally raised, without, however, setting the minimum percentage that should be transferred to it. The central government could also use other conditional grants to ensure equity and maintain national standards in the provision of certain services.

The last element of local government autonomy is administrative autonomy. This has to do with the autonomy of local government to determine its administrative structure and hire and fire its personnel. Local administrative autonomy is important in that centralised hiring and firing of local personnel is likely to have a “stifling” effect on local government’s potential to foster development (Olowu & Smoke, 1992, p. 3). It also opens the door for the central government to undermine the political and financial autonomy of local government.

## 6. Supervision

As was mentioned, unfettered local autonomy presents numerous risks, including that of corruption, capture of local institutions and resources by elites, and inequitable distribution of basic services across a country. The way to prevent these shortcomings of local autonomy is supervision by a central government, which involves regulation, monitoring, support and intervention. Central regulation is a mechanism whereby the central government sets minimum standards that local government has to fulfill in terms of service delivery. This is critical for ensuring that citizens, regardless of where they live, have access to basic services such as education, health care, and water.

Central government may use framework legislation, policies, manuals and other instruments for regulating local government. It should monitor local governments to ensure that the public services they provide meets the minimum standard set by it, that there is no breach of financial rules, and that resources are not captured by local elites. Monitoring also helps the central government to identify what kind of support it needs to provide to local government, this being another important element of supervision. Support may include technical, financial or other kinds of support, depending on the difficulties that local government is facing.

The central government may be also be justified in intervening in local government in circumstances where the latter malfunctions and support does not resolve the problem. Such intervention may include giving local officials a written warning pointing out their shortcomings in delivering basic services. Intervention could also see the central government taking over certain malfunctioning sectors. Depending on the magnitude of the problem, intervention could go so far as abolishing the local government council and appointing an administrator for the local government units until elections are held.

There is, however, a danger that the central government may abuse its supervisory power and “strangulate” local government through prescriptive laws, intrusive inspections and undue or excessive intervention.<sup>10</sup> There must hence be a procedural

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<sup>10</sup> Steytler equates excessive regulation of local government with strangulation, maintaining that this “prevent[s] it from executing its constitutional

safeguard that protects local government from these eventualities. Laws of the central government that prescribe what local government should do rather than provide it with broad framework could be constitutionally challenged. To prevent excessive and undue intervention, the grounds for intervention should be clearly defined. Grounds that are often seen as justifying central intervention include audit findings of financial misappropriation; the failure of a local council or local executive council to meet for a certain period of time; and the failure to approve budget. In short, the ground should be clear so as to leave little room for abuse by the central government.

Moreover, there should be procedural safeguards for preventing or discontinuing undue or excessive intervention. For instance, in South Africa, provincial intervention in a municipality is discontinued if it is not approved within a specified period of time by the minister responsible for local government and the National Council of Provinces (NCOP). Silence on the matter by the Minister and the NCOP is not to be construed as tacit approval of the intervention – the express approval of these organs is needed for the intervention to continue.

## 7. Intergovernmental Cooperation

The most oft-suggested institutional features of devolution are the ones described above: autonomy and supervision (World Bank, 1999; Sharma, 2005; Shah, 2004). However, De Visser (2005), referring to the South African Constitution, maintains that a decentralized system which aims to be developmental must have an institutional arrangement for cooperation among the various orders of government, including local government.

The reason is that cooperation is necessary because it provides the central government with the incentive to “genuinely relinquish power to local government” (2005, p. 210). It also mitigates the danger of promoting narrow local interests at the expense of national development. Moreover, it is impossible to demarcate competences neatly among the different orders, which necessitates that the latter cooperate with each other. Finally, intergovernmental cooperation can be an institutional mechanism for

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developmental mandate” (2008).

communicating local needs that cannot be addressed by local government to senior levels of government (De Visser, 2005, p. 210).

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Intergovernmental cooperation needs to be based on a normative framework of cooperation that assumes the “equality” of the different levels of government. In other words, it is not hierarchical, as is the case with supervision. Cooperation may have both horizontal and vertical dimensions. Regarding the horizontal dimension, the trans-boundary effects of certain local government developmental activities require horizontal cooperation among local government units (De Visser, 2005, p. 212). Regarding the vertical, the need to harmonize local activities with those of the national and state governments entails not only that the activities of local government be in line with national policies and strategies but that national policies take into account the interests of local government (De Visser, 2005, p. 210; Watts, 2006, p. 207). This in turn requires the institutionalisation, through a legal framework, of vertical cooperation.

There is a little agreement whether inter-governmental cooperation should be institutionalized, especially at the initial stage of a decentralisation process. The fear is that it may become rigid, thus preventing purposeful or evolutionary development of structures of inter-governmental cooperation (De Visser, 2005, p. 212). It is hence often suggested that it is preferable if a structure of inter-governmental cooperation arises on the basis of practice. However, the need to ensure inclusivity, transparency and better attendance at meetings, along with the need to increase the political significance of the structures of inter-governmental cooperation, may entail a degree of institutionalization at the outset (De Visser, 2005, p. 212).

## 8. Conclusion

The decentralization of powers and resources to subnational government is now a global trend. Every state is facing internal and external pressure to follow suit. The question is not whether to decentralize or not – decentralization is a *must*. The question instead is what public good is to be achieved by it and how to design a decentralization program to that effect.

An institutional design that balances autonomy (political, financial and administrative) with central supervision is the commonly suggested institutional design of decentralisation when the latter is meant for achieving development. This is based on the understanding that local autonomy enhances the democratic process and the capability of achieving development through public participation, but also poses the danger of corruption and elite capture of resources and local institutions. Central supervision can be used to tackle problems associated with decentralisation, though it may also stifle local initiatives for, and innovation in, addressing lack of development.

In short, too much local autonomy and too much intrusive central supervision are both bad for development. Achieving decentralised development thus involves balancing autonomy with central supervision. Each case study of the thematic research will discuss how the state in question is effecting this balancing act in practice. The case studies also examine how local government is faring in terms of providing basic services. Before addressing that, though, the next article deals with the constitutional and legal framework within which Ethiopian local government is functioning.

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