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# **Institutions, Decentralization and Structural Transformation in Eastern Africa**



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Economic Commission for Africa



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# Abbreviations

AEO	Africa Economic Outlook
AfDB	African Development Bank
AU	African Union
CAAPD	Comprehensive Africa Agriculture Development Programme
CBI	Central Bank Independence
CIC	Commission for the Implementation of the Constitution
CoG	Council of Governors
DRC	Democratic Republic of the Congo
EA	Eastern Africa
EAC	East African Community
ECA	Economic Commission for Africa
EU	European Union
FDI	Foreign Direct Investment
GCI	Global Competitiveness Index
GDP	Gross domestic product
GNI	Gross national income
GVA	Gross value added
ICE	Intergovernmental Committee of Experts
IGRTC	Intergovernmental Relations Technical Committee
IMF	International Monetary Fund
MDG	Millennium Development Goal
NESC	National Economic and Social Council
OECD	Organization for Economic Cooperation and Development
SRO-EA	Sub-Regional Office for Eastern Africa
SSA	Sub-Saharan Africa
UNCDF	United Nations Capital Development Fund
UNDESA	United Nations Department of Economic and Social Affairs
UNDP	United Nations Development Programme
USD	United States dollar

# Acknowledgements

This study was prepared as a key input to the discussions of the Sub-Regional Office for Eastern Africa (SRO-EA) of the Economic Commission for Africa (ECA) Twentieth Inter-Governmental Committee of Experts on Institutions, Decentralization and Structural Transformation in Eastern Africa, which was held on 8-11 February 2016, in Nairobi. The study was carried out by the National Economic and Social Council (NESC) of Kenya under the guidance of Antonio M.A. Pedro, Director of SRO-EA. In pursuit of objectivity and quality, NESC engaged a team of subject experts to collect and analyse the data as well as to write and edit the report.

A number of individuals were involved in carrying out the study. The Secretary of NESC, Julius Muia, and Director for Social Sector, Elizabeth Kimulu, provided overall direction and management of the project. The team of experts comprised Peter M. Lewa, Kemoli Sagala and Patrick Kasyula. A vital link that helped in coordinating various aspects of the report, including organising country missions, was provided by Geoffrey Manyara, Economic Affairs Officer - Tourism at SRO-EA. This report incorporates comments received from Pedro

Martins and Daya Bragante at SRO-EA, including suggestions by the participants at the conference of the Twentieth Inter-Governmental Committee of Experts and inputs by experts in a validation workshop.

The preparation of this report required that some of the secondary data be complemented and corroborated by evidence from primary sources in countries that were selected for the purposes of this study. During these country visits the team accessed a selected group of experts and leaders who provided invaluable inputs for this report. Comparator information was also obtained from Mauritius.

Considerable effort has been made to obtain the most recent credible secondary data for as many variables as possible in order to infuse objectivity and quantitative parameters in this report. To this end, this background study has benefitted substantially from, and relied heavily on, data published by various agencies of the United Nations, national Governments and researchers.



# Executive summary

This background report on Institutions, Decentralization and Structural Transformation was prepared for discussion during the Twentieth Session of the Intergovernmental Committee of Experts (ICE) held on 8-11 February 2016 in Nairobi. The overall objective was to provide an understanding of the role of “institutions” and “decentralization” in structural transformation through an evidence-based approach. This involved examining structural transformation in Eastern Africa and identifying strategies that could bridge the gap between the current impressive economic growth rates witnessed by most countries in the subregion and the low achievement in socioeconomic indicators, particularly in poverty alleviation.

The study took cognizance of the prevalent policy reforms of the last 20 years through which governments in the region have embarked on decentralization and institutional reforms, and examined the link between institutions and decentralization on the one hand, and socioeconomic outcomes represented largely by indicators of well-being on the other hand. In the hypothesized conceptual framework, the channels for transmitting decentralization were identified to include: policy designs, leadership, public participation and service delivery.

Secondary data was supplemented by key-informant interviews that were carried out in Ethiopia, Kenya, Rwanda and Uganda. Additional comparative data was obtained in Mauritius, which has performed well and neighbours the region. A validation workshop, held in Nairobi in June 2016, provided further inputs to the report.

Africa’s “growth miracle” began around the year 2000, coinciding with intensified globalization marked by the opening-up of the largest developing country in the world – China. Eastern Africa economies have also performed better in terms of economic growth than the rest of Africa in the last 15 years. However, agriculture remains the

largest sector in terms of its contribution to gross national product, employment and exports, while the contribution of manufacturing and high-technology sectors has remained small.

Notwithstanding the high level of performance of Eastern Africa, most indicators of wellness continue to show that the region scores low in the global league and in most cases dominates the lowest ranks. For instance, 12 of the 14 countries in the Eastern Africa region (with the exception of Kenya and Seychelles) are classified as least developed countries on account of low levels of gross national per capita income, among other indicators. Most countries in the region – apart from Rwanda, Kenya and Seychelles – score poorly in the indices of global competitiveness and ease of doing business. Other pointers to poor socioeconomic outcomes include low ranking in a poverty index and low literacy rates. The ability of Governments to drive transformation through public expenditure is constrained by low government resources in the face of high needs to provide basic services such as health and education. This is complicated by unfavourable environmental factors such as population pressure, political instability and inequality.

Structural Adjustment Programmes among member States in Eastern Africa have been followed by the development of nationwide home-grown policies as part of reform strategies to support manufacturing and grow exports. Another reform agenda has been the notable focus on structural change and transformation, with the aim of achieving substantial and sustainable development. Part of these reform efforts have led to the development and implementation of varying types of decentralization, supported by a combination of policies, constitutional, legislative and regulatory instruments. Empirical evidence shows that country-specific issues have informed the extent that the central power has held back on handing over authority in various forms of decentralization. These issues include: delegation

in Rwanda and Uganda; devolution in Kenya; and federalism in Ethiopia.

In the majority of countries in the subregion it was found that decentralization (political, administrative and fiscal) has, to some extent, enabled the shifting of resources and people to desired sectors such as manufacturing and high technology, and facilitated the provision of public services and spurred growth in other sectors away from the traditional sectors, especially agriculture. Moreover, it was noted that the policy focus on structural change and transformation has created the necessary impetus to strengthen and support appropriate institutions that make and implement decisions focusing on the developmental challenges in the region, including job creation, reduction in poverty and tackling inequalities. A key ingredient of this transformation is accelerated growth that is premised on improved productivity, especially in agriculture.

The quest for decentralization remains alive in Eastern Africa. Increasingly, the motivations behind the decentralization agenda have stretched from political interests to seeking to improve governance and delivery of public services. Analyses of regional data suggest a variety of constitutional and legal frameworks and mechanisms for citizens to participate and be involved in making decisions, planning and evaluation within Eastern Africa. To a large extent, these mechanisms have transformed the relationship between decision makers and the public. In Kenya, for instance, recent legal frameworks have empowered citizens considerably and given them more voice and say in public matters, thereby deepening citizen participation and, to some extent, promoting accountability.

Certain key lessons can be identified from the findings of the study:

- Institutions can play an important role in promoting structural transformation and enabling growth. Consequently, member States should ensure that they design and implement appropriate national and subnational policies and strategies to address institutional

weaknesses. A developmental State<sup>1</sup>, with its access to an array of resources (political, legislative, financial and organizational), is perhaps the only institution with this capacity and ability. Furthermore, decentralization (political, administrative and fiscal) can be a solid vehicle for building strong institutions.

- Each country's context, with respect to geography, politics and the social dimension, affects the form, timing and vigour of decentralization. This elevates contextual considerations to an important level as countries attempt to increase governance, accountability and participation in the decentralized subnational units. In turn, these country-specific issues will influence the pace and path of transformation. Political support is very critical to the success of decentralization.
- The existing relationships between the national government and various stakeholders, as well as the policy, legislative and regulatory frameworks, are important influencers of a country's structural transformation process. In addition to the central government the other stakeholders in this process are: subnational units, power centres, media and civil society.
- The availability and quality of a skilled workforce has a huge impact on the success of decentralization, the quality of institutions and structural transformation of a country. Evidence from the countries where key-informant interviews were carried out showed that lack of appropriate human resources at the subnational level heavily constrained the adoption of decentralization, the effectiveness of institutions in service delivery and the achievement of structural transformation. It is therefore necessary urgently to design and implement comprehensive capacity-building programmes for the efficient and effective functioning of decentralized units in every country in order to accelerate and boost structural transformation.

---

<sup>1</sup> A developmental State refers to the phenomenon of State-led macroeconomic planning in East Asia.

- Evidence obtained in this study established the need for Eastern Africa member countries to work together as a bloc to improve governance and support inclusive service delivery in their efforts to reduce poverty and achieve structural transformation. Success cases in the region can be documented and shared as good lessons. This can be achieved at a minimal cost, partly due to geographical proximity and similarity in socioeconomic aspects between countries.
- It is imperative that Eastern African Governments endeavour to support political and legal-reform processes that aim to anchor decentralization firmly in the respective national constitutions. This will help institutionalize good local governance in the region and create a mass movement towards better governance.
- The pursuit of decentralization and the need to ensure that institutions that support it are functioning is a common thread running through most countries in Eastern Africa. It is expected that gains from this endeavour will include support for structural transformation. To provide the required impetus and momentum in this respect, ministers in charge of decentralized units and other officials concerned in member countries would need to pursue their policy dialogue and also build their capacity in regard to the implementation dynamics of decentralization. The programme should include collaboration with institutions such as national think-tanks (such as National Economic and Social Council in Kenya), World Bank, the United Kingdom's Department for International Development, the East African Community and other organizations that support governance initiatives.
- Public participation in the region is governed by fragmented rules and systems that often do not function well. This limits the

extent and benefits of public participation in decision-making, provision of checks and balances, and monitoring and evaluating the service-delivery levels of the central Government and decentralized units. The lowest citizen participation was found in Ethiopia where policy, legislative and informal practices discourage and sometimes outlaw activities of the media and civil society. Furthermore, it was generally noted that despite the potential benefits of citizen participation in entrenching decentralization and supporting structural transformation, the region suffers from very limited capacity and low allocation of resources to build the necessary capacity. In addition, there is no published comparative empirical data on public participation within the region.

- The state of accountability and transparency in the region is generally weak. Public participation in a pluralistic context assumes the existence of highly liberal democratic State; however, most countries in the region have not reached this level of democracy.
- Although the majority of civil-society organizations are vibrant, their activities remain suspect within government corridors and at the same time the State agencies have used cooption to weaken civil-society organizations.
- There is little coordination between civil society organizations. Their fragmented initiatives may undermine effective public participation.

It is important to sustain the momentum created by this dialogue on institutions, decentralization and structural transformation during the twentieth meeting of the Intergovernmental Committee of Experts. This can be done through Member States agreeing to continue the dialogue and cooperation on these issues.



# Chapter I

## Introduction

### A. Background

This study on institutions, decentralization and structural transformation in Eastern Africa was commissioned by the Economic Commission for Africa, Sub-Regional Office for Eastern Africa (SRO-EA) for the twentieth session of the Intergovernmental Committee of Experts (ICE) held in February 2016 in Nairobi. The committee is the statutory organ of SRO-EA and includes representatives of the 14 Member States served by the office as well as regional economic communities and intergovernmental organizations of the subregion, development partners, research centres and other stakeholders.

The theme of the meeting came in the wake of the *Economic Report on Africa 2014: Dynamic Industrial Policy in Africa* which urges Member States to refocus their development strategies on industrialization. It advocates a more holistic and participatory approach to industrial policy. It also recommends designing and implementing industrial policies anchored on strong and inclusive institutions, flexible and dynamic processes, and mechanisms for broad based public consultation and engagement.

An increasing body of theoretical and empirical evidence suggests that institutions play an important role in promoting equitable growth and structural transformation. Consequently, the twentieth session examined this role in the case of Eastern Africa. It explored ways in which quality institutions can be designed so that they encapsulate a shared vision, promote effective leadership, strengthen public participation and build social capital. In addition, the experts examined how decentralization can occur in ways that balance national and local interests, enhance social equity and national unity for development, and generate a fair deal for all. Case studies from Africa and beyond were scrutinized to identify the opportunities and challenges of decentralization.

The report builds on work by the Economic Commission for Africa and its agenda on structural transformation over the past five years which have dealt with this subject in depth<sup>2</sup>. The key messages are as follows:

- the global economic crisis provides African countries with a unique opportunity to pursue policies that will not only counter the effects of recession but also lay the foundation for structural transformation and rapid and sustainable growth based on diversified economies and, more importantly, rapidly develop large and labour-absorbing sectors of African economies in order to create jobs to employ the rapidly growing labour force (*Economic Report on Africa 2010*, p13).
- African countries can pursue several short-term and long-term policies to achieve the needed structural transformation that generates high growth with increased employment creation. Africa's structural transformation requires developmental States with sound long-term development visions and plans (*Economic Report on Africa 2011*).
- In the long term, Africa's governments need to pursue economic diversification and structural transformation vigorously in order to reduce vulnerability to external shocks (*Economic Report on Africa 2012*).

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2 Economic Report on Africa 2010: Promoting high-level sustainable growth to reduce unemployment in Africa.

Economic Report on Africa 2011: Governing development in Africa – the role of the state in economic transformation.

Economic Report on Africa 2012: Unleashing Africa's potential as a pole of global growth.

Economic Report on Africa 2013: Making the most of Africa's commodities.

Economic Report on Africa 2014: Dynamic industrial policy in Africa – Innovative institutions, effective processes and flexible mechanisms.

Economic Report on Africa 2015: Industrializing through trade.

- Africa’s structural transformation has been held back by the slow progress of its agriculture. In order to continue its recent acceleration of growth will depend on prolonging recent acceleration of productivity growth. Structural transformation in Africa has been limited and has not been conducive to higher productivity and growth in the gross domestic product (GDP). It often resulted from a shift in resources, especially labour, from traditional agriculture and rural activities to low-productivity activities, often informal, in urban centres (Economic Report on Africa 2014).
- Building and running high-quality institutions emerges as the key challenge for creating the positive synergies between productivity growth and structural transformation that are required to sustain Africa’s renewed economic growth (Economic Report on Africa 2014).
- Structural transformation of industrial production and trade is a prerequisite for effective trade-induced industrialization in Africa. Conducive socioeconomic conditions, peace and security as well as political will are equally important to ensure structural transformation can take place effectively (Economic Report on Africa 2015).
- African countries need to rethink trade policy as a means to promote industrial development in order to achieve structural transformation that will promote inclusive, stable and sustainable growth, reduce poverty and generate employment (Economic Report on Africa 2015).

## B. Aims and objectives of the study

The overall objective of this background study is to provide an understanding of the role of institutions and decentralization in structural transformation through an evidence-based approach. This was done in order to examine the economic-growth trajectory and hence depth of structural transformation in Eastern Africa and identify strategies that could bridge the gap between the current impressive economic growth rates

witnessed by most countries in the subregion and the deficiency in the improvement of socio-economic development indicators, particularly, poverty alleviation.

The study specifically sought:

- To provide a theoretical perspective and a conceptual framework linking the concepts of institutions and decentralization, and how these can facilitate rapid attainment of structural transformation in Eastern Africa
- To identify challenges and opportunities for Member States to create robust institutions, embrace various forms of decentralization in their respective efforts to balance national and local interests, enhance social equity and national unity for development, legitimize markets and generate a “fair deal” for all
- To draw from various types of institutional frameworks and examples of decentralization among Member States in Eastern Africa, and to identify appropriate best-practice case studies from Africa and across the world that have led to rapid structural transformation
- To propose appropriate policy recommendations that will facilitate the establishment of robust institutions, which will in turn support the various forms of decentralization practiced by member States in Eastern Africa towards the attainment of structural transformation.

## C. Methodology

Different methods were used to collect data and information for this study. Whilst secondary data formed the largest component of inputs, primary data was also collected and analysed, as outlined below.

**Literature review:** A comprehensive literature review was carried out to conceptualize and contextualize the theme for the study. Results from this review were used to determine the type and extent of supporting and complementary secondary and primary data which were collected

and analysed descriptively within the thematic areas of the study.

**Data collection and analysis:** Various reports and institutional documents were the main sources of secondary data that enabled the documentation of case studies, using both quantitative and qualitative data. The key-informant interviews to collect primary data were based on purposive sampling where key stakeholders were targeted to cover the public and private sectors, intergovernmental organizations, academia and civil-society organizations that are relevant to the theme of the study. Both structured and semi-structured questions, supported by appropriate checklists, were used.

Primary data was collected in Ethiopia, Rwanda, Uganda, Kenya and Mauritius. The first three were selected on account of their longer history of decentralized governments. Also, Ethiopia and Rwanda have consistently posted higher growth. Though located outside the subregion, Mauritius was included as a comparator country due to her high growth and considerable level of structural transformation. In addition, secondary data was collected in Kenya to bring out the country's experience of decentralization, which World Bank (2015) described as one of the most rapid and ambitious devolution processes in the world, with new governance challenges and opportunities as the country creates new county governments which did not exist previously.

**Stakeholder validation:** The comments and inputs received during the twentieth session of the intergovernmental committee have been analysed and integrated into the study. Thereafter, the revised report was validated by an expert group meeting involving participants from the public and private sectors, civil society and academia.

## D. Review of the socioeconomic environment in Eastern Africa

From the turn of the century most Eastern Africa countries have been undertaking various political and socioeconomic reforms to grow their economies and lift their citizens out of poverty. These encompass strategic policies and reforms such as

macroeconomic planning and decentralization in different forms, as will be discussed in this study.

According to the World Bank<sup>3</sup>, key among the desired outcomes of decentralization are: increased incomes, increased productivity, increased literacy, decreased mortality and growth of civil society. The focus on these outcomes informs this brief overview of the regional economies, including growth, incomes, human development and global competitiveness.

### 1. Economic growth

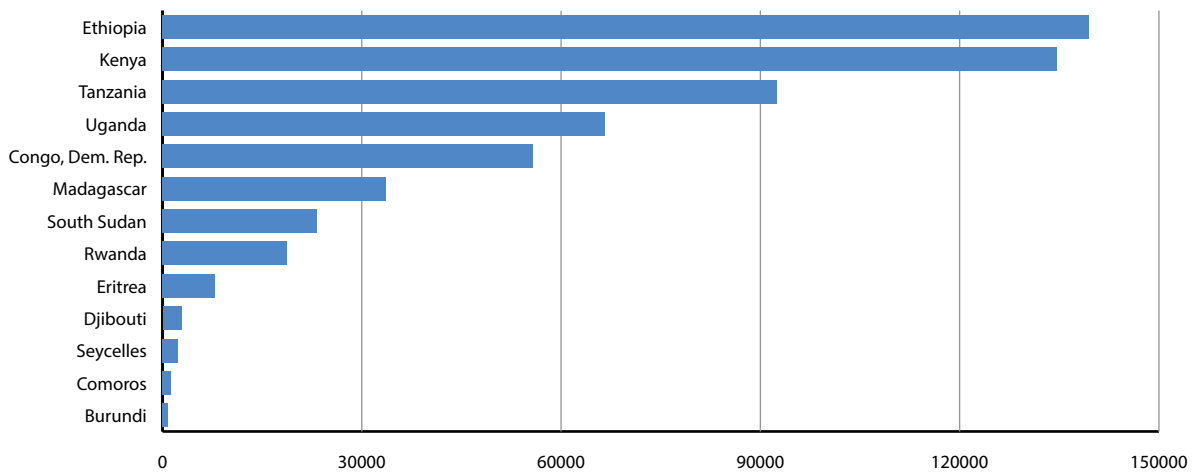
Ethiopia was the largest economy in the Eastern Africa region by 2014. This is borne out by statistics on gross domestic product (GDP) based on purchasing power parity (PPP) for regional economies, as shown in figure 1.

Figure 1 shows that in 2014 Ethiopia was the largest of the subregion's 14 economies, with gross domestic product of \$139,434 million, followed closely by Kenya (\$134,711 million), the United Republic of Tanzania (\$92,532 million) and Uganda (\$66,650 million). The smallest economies were Burundi (\$896 million) and Comoros (\$1,211 million). The calculated average of the Member States' economies is \$44,602 million, which attests to relatively small nations and suggests they may not enjoy economies of scale in most production activities oriented towards domestic markets. Also, the estimated total gross domestic product of the subregion was about \$579,834 million, about 0.5 per cent of world gross domestic product, suggesting the region's diminished role in the global economy.

However, as illustrated in figure 2, the statistics for gross domestic product per capita suggest a different picture. The data shows that Seychelles has the highest gross domestic product per capita in the region (\$24,694), placing it way above the Africa average of \$4,826 and the only high-income country in the subregion. The levels of gross domestic product per capita of all other Eastern African countries were below the Africa average.

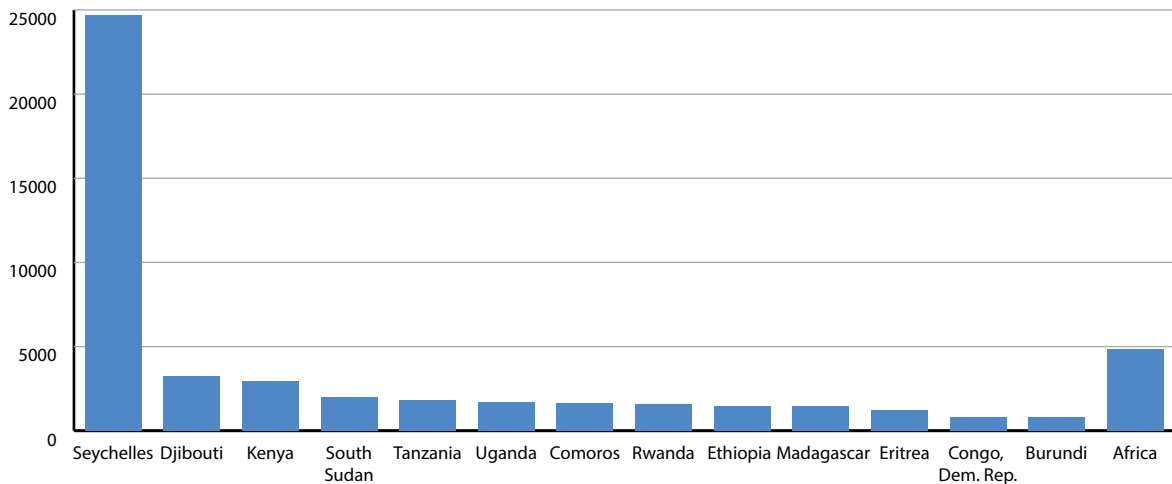
3 <http://www1.worldbank.org/publicsector/decentralization/toolkit9.pdf>

**Figure 1: Gross domestic product based on purchasing power parity valuation (USD) in 2014**



Source: NESC, based on data from AfDB, OECD and UNDP African Economic Outlook 2015. No Data for Somalia economy.

**Figure 2: Gross domestic product per capita purchasing power parity valuation (USD) in 2014**



Source: NESC based on data from AfDB, OECD and UNDP, African Economic Outlook 2015. No data for Somalia.

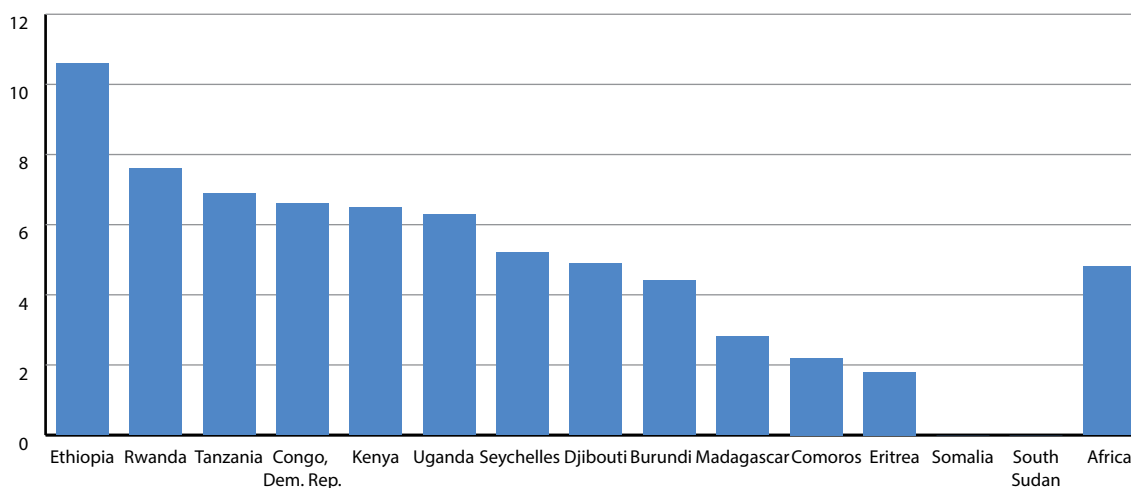
The lowest gross domestic product per capita was recorded in Burundi at \$801 and the Democratic Republic of the Congo at \$804. Low per capita income has profound implications on the region's socioeconomic situation and development priorities. There is a close link between low incomes and poverty, poor health outcomes and illiteracy, and this heightens the need for innovative transformational solutions.

Turning to expansion of the economies, the Eastern Africa region has been performing well in terms of real growth in gross domestic product growth. Figure 3 shows the average growth rates from 2006 to 2014.

Figure 3 illustrates that most economies have recorded high real economic growth rates in the last decade, which is an indicator of good performance. In addition, the growth rates have been steadily increasing since 2006 and exceed other regions of Africa. This is largely attributed to the political and economic reforms that were initiated by most countries from about 2000. In addition, external factors have fuelled this growth including increased demand for oil and minerals, higher commodity prices, and significant inflow of capital investment in agriculture, mining and infrastructure. The best performers were Ethiopia and Rwanda with an average GDP growth rates of 10.6 per cent and 7.6 per cent, respectively. The worst performers were the Comoros and Eritrea



**Figure 3: Annual real growth in gross domestic product (average over 2006-2014)**



**Source:** NESC based on data from AfDB, OECD and UNDP, *African Economic Outlook 2015*. No data for South Sudan and Somalia.

with 2.2 per cent and 1.8 per cent growth rates, respectively.

Given, the region's low levels of gross domestic product per capita, a fitting question is whether the impressive growth trajectory has translated into improvements in the productivity of the economies, the range and quality of public services, and the quality of life of the citizens. These are important dimensions of structural transformation. The next subsection examines the human development situation in the region in order to highlight salient features of the wellness of the average citizen.

## **2. Human development in Eastern Africa countries, 2014**

The United Nations Development Programme's *Human Development Report* ranks countries based on their performance with respect to the citizens' incomes, literacy and life expectancy, and provides a widely used indicator of socioeconomic outcomes. The performance of East African Member States is wanting: none achieve very high human development; only Seychelles is ranked for high human development; none are ranked for medium human development; and 12 are ranked among low human development countries. Somalia is not ranked.

These low scores clearly show that there is a mismatch between the impressive economic growth rates and progress in human development indi-

cators. This suggests that new interventions are needed to improve the citizens' livelihoods and income levels and to lift literacy rates and health outcomes. The region can leverage on governance for improved human development through providing more services and facilitating citizen participation, as will be discussed later in this report.

## **3. Global competitiveness of the subregion**

Globalization compels countries to compete in international markets for scarce resources and export space. Yet, according to the *Global Competitiveness Report 2015*, most Eastern Africa countries rank poorly in competitiveness. For instance, out of 140 global economies, the highest ranked in the region is Rwanda (position 58), followed by Seychelles (97) and Kenya (99). Six economies (the Comoros, Djibouti, the Democratic Republic of the Congo, Eritrea, Somalia and South Sudan) were not ranked and the other five member States fared poorly and were ranked between 109 and 136. Without a competitive edge, countries in the subregion are not only likely to find it hard to command the resources and factor inputs necessary for increased output, but also will face a significant challenge in exporting into the international markets in a sustainable manner. Consequently, the need for a structural change in these economies is unambiguous.

## E. Definition of key concepts

This section provides definitions for the main concepts of institutions, decentralization and structural transformation.

### 1. Institutions

Institutions are formalized and non-formalized structures comprising “a set of rules that structure social interactions in particular ways” (Knight, 1994, p2) or “systems of established and prevalent social rules that structure social interactions”. They can be regarded as “systematic patterns of shared expectations, taken-for-granted assumptions, accepted norms and routines of interaction that have robust effects on shaping the motivations and behaviour of sets of interconnected social actors” (Chang and Evans, 2005, p99). Based on this reasoning, Hodgson and Knudsen (2006, p2) state that “language, money, law, systems of weights and measures, table manners, and firms (and other organizations) are thus all institutions.” Jean-Claude Thoenig (2005) posits that institutions “structure the design and the content of the decisions themselves”. Institutions vary from one country to another (Hattam, 1993). In this report, institutions shall be construed to include the State, firm and family. This report focuses on the institution of State and explores decentralization as a key pillar of governance.

### 2. Decentralization

Decentralization is the process of transferring functions, powers and resources from a central authority to lower subunits. According to Mawhood (1993), decentralization occurs when a national Government shares some of its powers with other groups, particularly those that are either geographically dispersed, or are responsible for specific functions, or are given jurisdiction over specified physical locations. A useful amplification is offered by Litvack, Ahmad and Bird (1998) who stipulate that decentralization is “the assignment of fiscal, political and administrative instruments to lower levels of government”. These instruments are then used to achieve the transfer of responsibility to other levels of government. Chapter II discusses the distinctive forms of decentralization, namely, de-concentration, delegation, devolution and federalism. Each form of decentralization has

unique implications with respect to the role of various institutions in influencing national development through policy direction and politics at the national and subnational levels.

### 3. Structural transformation

At the highest level, structural transformation refers to the reallocation of labour across sectors over time. According to one paper, it is “characterized by a systematic fall in the share of labour allocated to agriculture over time, by a steady increase in the share of labour in services, and by a hump-shaped pattern for the share of labour in manufacturing” (Duarte and Restuccia, 2009, p6). In a wider sense, structural transformation comprises a change in “resource allocation and factors utilization”, writes another author, and it can be measured through the relative decline in labour-intensive “low-productivity agriculture and low value added extractives and a relative rise of manufacturing and high-productivity services” (Odusola, 2014, p3). Accordingly, this reallocation of labour raises workers’ productivity, which contributes to accelerated economic growth (Martins, 2015, p1).

## F. Theoretical perspectives and conceptual framework

This study attempts to provide a foundational understanding of the role of institutions and decentralization in structural transformation through an evidence-based approach. The rationale for the analysis adopted revolves around the need to improve the pace, quality and sustainability of the economic growth process, with a view to reducing poverty, tackling growing inequalities, generating decent jobs and easing demographic pressures. Accelerating structural transformation is vital to achieve these objectives, especially if enabled through sound political, social and economic decisions. Strong institutions are required to execute concrete interventions, leading to higher equity, enhanced social cohesion and preservation of natural resources, which are taken as primary indicators of well-being for beneficiary populations. Decentralization is to be seen as a promising political pathway and process – among others– that could foster the strengthening of

institutions, leadership and public participation, ultimately leading to structural transformation.

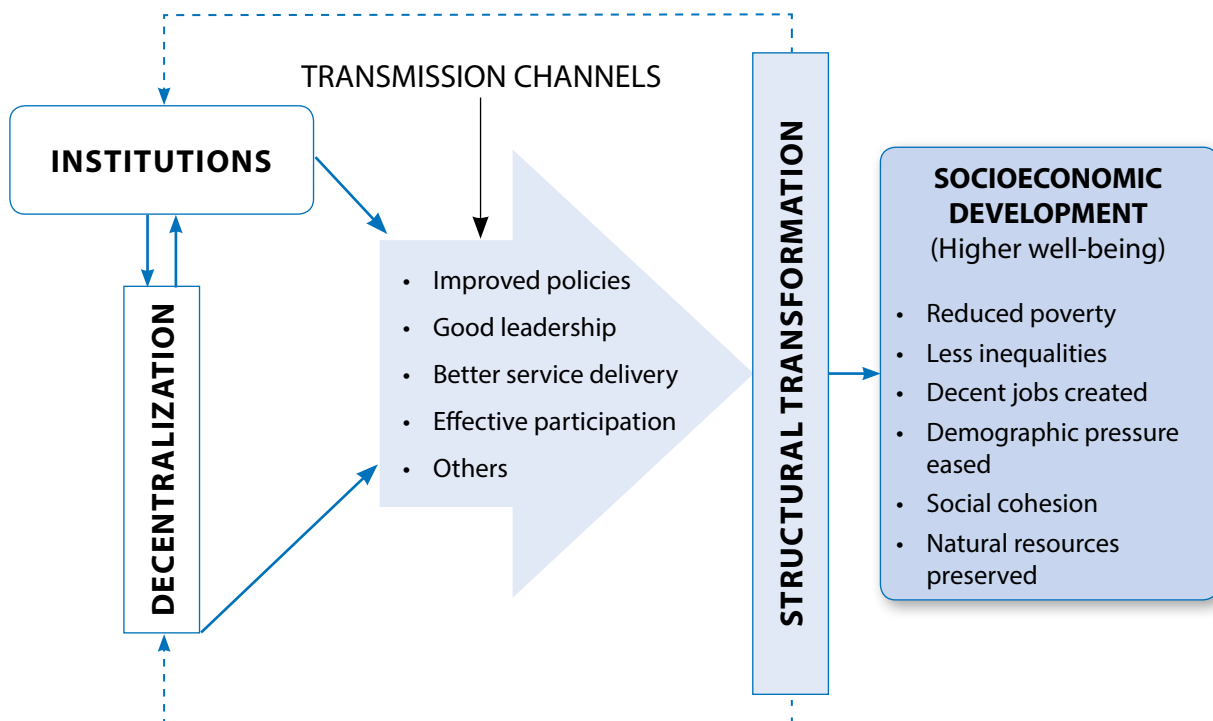
The foregoing suggests that since decentralization and institutions lead to better economic decisions (such as targeted infrastructure and creation of growth clusters) and improved service delivery (for instance education and health), then they can contribute to accelerating structural transformation. In this study decentralization and institutions are assumed to be some of the critical frameworks for achieving fiscal federalism, good governance and substantial public participation, all of which contribute to better economic decisions and improved service delivery. This reasoning yields a sequential narrative between institutions, decentralization, structural transformation and development that has informed the structure of this study and report. The transmission channels through which institutions and decentralization are hypothesized to influence socioeconomic outcomes are: improved policies, good leadership, better service delivery and effective participation, all of which contribute to better economic decisions and improved service delivery. This reasoning yields a sequential narrative between institutions, decentralization, structural transformation and development that has informed the structure of this study and report. The transmission channels through which institutions and decentralization are hypothesized to influence socioeconomic outcomes are: improved policies, good leadership, better service delivery and effective participation, all of which contribute to better economic decisions and improved service delivery.

participation<sup>4</sup>. An appropriate conceptual model of these relationships is hypothesized in figure 4.

The import of the framework in figure 4 below is that the combination of a wide variety of institutional arrangements and different modes of decentralization are likely to yield numerous structural transformation pathways and hence dissimilar levels of growth. Such heterogeneity has important policy implications on how developing societies should aim to transform into modern service-oriented high-functioning and efficient systems. For this reason, a robust analysis of structural transformation options in the Eastern Africa region requires a good understanding of the main underlying concepts that are hypothesized to inform this process.

In Kenya, devolution has shifted resources and people and spurred the provision of public services. It is well established that structural change has been higher in countries with better governance, more effective schools and more compet-

**Figure 4: Conceptual model for the study**



Source: NESG conceptualization.

4 The independent variables in this framework are decentralization and institutions; the intervening variable is structural transformation; while socioeconomic development is the dependent variable.

itive exchange rates (Herrendorf, Rogerson and Valentinyi, 2013; Duarte and Restuccia, 2009). In spite of the arrival of positive structural change during the last decade, Eastern African countries need a lot more effective transformation to create socioeconomic structures that can provide good jobs and higher incomes for the growing population. The gravity of this problem is underscored by the emerging phenomena of a youth bulge and large proportions of unemployed citizens.

Structural change has undoubtedly played a substantial role in boosting productivity levels in developing countries, including in Eastern Africa. According to Duarte and Restuccia (2009) countries that have realized the most rapid growth rates have typically reallocated the most labour into highproductivity manufacturing, allowing aggregate productivity to catch up. The period starting around 2000 marked the beginning of Africa's "growth miracle", coinciding with a period of intensified globalization marked by the opening up of the largest developing country in the world – China – and a boom in commodity prices (McMillan and Rodrik, 2011).

## **G. Summary**

There is a growing body of evidence that structural change has been higher in countries with competitive economies, better governance and more effective education systems, which help to build the capacity of its citizens. While Eastern Africa has made progress in economic growth in the recent past, it is evident that gaps remain in productivity and human development. A clear focus on structural transformation strategies is required to ensure that untapped potential is harnessed to achieve improved socioeconomic outcomes for the citizens. An examination of the opportunities, challenges and risks highlighted above invites appropriate policy responses in order for sustainable development to be realized in the region.

The analysis in subsection D clearly shows that the Eastern Africa region has achieved notable rates of economic growth over the last 10 years. Besides, a number of countries in the region have strong prospects for future growth over the next two to five years, as recognized by national and

international institutions. There is also evidence that countries in Eastern Africa have achieved considerable improvements in many socioeconomic indicators, including income poverty, child mortality and literacy rates. While faster economic growth has contributed to this performance, disparities still exist and it is crucial to ensure that future growth is inclusive and sustained.

## **H. Outline of the report**

This report is organized as follows. Chapter II discusses the various conceptual forms of decentralization and fiscal management, and highlights case studies of specific countries in the region. Special attention is paid to mechanisms to mobilize, generate and distribute resources, including allocation frameworks, within the context of decentralization.

Chapter III investigates the social dimensions of decentralization by examining participatory governance and planning, including empowering citizens in making decisions, planning development and evaluating results. The theme of this chapter is decentralization as an enabler of structural transformation through social capital and participation of citizens in governance.

Service delivery within the context of decentralization is discussed in chapter IV. Guided by the premise that public functions are important for structural transformation, this chapter analyses the sharing of functions between central Government and decentralized units. Some of the major services that are examined include health, education, security, agriculture and infrastructure.

The linkages between policy design, behavioural economics, decentralization and institutional quality to structural transformation are discussed in chapter V. The highlights include analyses of the quality of policy, institutions and economic performance in the Eastern Africa region.

Chapter VI pulls together the conclusions and policy recommendations arising from this study.

# Chapter II

## Decentralization and fiscal federalism

### A. Introduction

The advent of decentralization around the world can be linked to three key understandings, namely: political science, public administration and public choice. Political decentralization is assumed to promote political training, stability and popular participation as ways to redress perceived marginalization and to increase accountability. Public administration theorists argue that decentralization enhances allocative efficiency and effectiveness and promotes organization and coordination, while public choice suggests decentralization creates market-like conditions for public services and can encourage a larger number of service providers to compete to meet citizens' needs. Informed by this new interest in decentralization, this chapter traces the history of the concept and examines the nature and practice in the Eastern African subregion.

#### 1. The concept of decentralization

Political science literature indicates that decentralization attracted the first notable attention in the 1950s and 1960s when British and French colonial administrations prepared their colonies for independence by devolving responsibilities for certain programmes to local authorities (Work, 2002). Work notes that decentralization came to the forefront of the development agenda in the 1980s alongside the renewed global emphasis on governance and human-centred approaches to development. It is worth noting that today both developed and developing countries are pursuing decentralization policies as the best model of governance with assured deliverables in the form of public participation, bottom-up development paradigms and community-based setting of priorities. The importance of decentralization is demonstrated by the conscious debate over the concept. It supports the assertion by Mawhood

(1993, p2) that the usefulness of decentralization is what gives it dominance as a concept.

Within Eastern Africa, the history of decentralization is as old as the history of the countries and their peoples. Except for Ethiopia, which was never colonized, the pre-colonial governance model of most of the countries in the subregion was largely decentralized. People lived together in prescribed societal boundaries that were largely informed by kinship relations or geographical placements. The societies were managed by local leaders through councils of elders, which embodied the social and political leadership structures. It can therefore be valid to trace decentralization to the socioeconomic and political organization of those times. Thus, decentralization is as old as humanity and all countries have undergone the full circle of decentralization before the emergence of highly centralized States, mostly after attaining independence (Oyugi, 1994).

This ideology of united citizens to consolidate gains that were lost during colonialism gathered momentum in the early 1970s in most Eastern Africa States, largely after achievement of independence under government architectures that leaned towards decentralization. Therefore, since inception of these States, decentralization has been factored in most forms of government designs, even in those countries which had highly centralized governance. To safeguard decentralization, this governance model has found its way into constitutional designs for governments. It has been pursued by all States, although there have been varying degrees of decentralization.

Crawford and Hartmann (2008) clarify that the recent decentralization push in most of Africa is a reversal of the State centralization that was adopted in most of independent Africa. This cen-

tralization frustrated, suppressed or marginalized what had previously been local government structures. The researchers further argue that this was partly due to the imperative of nation-building, the realities of single-party or military rule, and the necessities of centralized planning. Moreover, the prevalence of Keynesianism at that time encouraged the donor community to press for the establishment of strong central institutions of State. However, towards the end of the twentieth century, the tide turned in favour of decentralization, with support by the international development agencies, civil society organizations and central Governments.

A major driving force for decentralization is the issue of historical injustices that various countries have suffered through unequal distribution of national resources among the various regions and sectors. This is because decentralization entails the sharing of central government powers with other institutions, as Makumbe (1998) asserts. Accordingly, Kasfir (1983, p25) suggests that decentralization means “distributing authority and power horizontally rather than hierarchically”. Under the principle of subsidiarity, Work (2002, p5) proposes that functions should be devolved to the lowest level of social order that is capable of completing them effectively and efficiently.

The underlying development logic for decentralization is that local institutions can better discern and are more likely to respond to local needs and aspirations. It must be emphasized that democratic frameworks are the basis for most of the realized benefits of decentralization. These provide or exist for local governments to discern the needs and preferences of their constituents, and for holding local governments accountable. Unfortunately, decentralization efforts in Eastern Africa have instead taken a negative path, where local democracies are created but given no powers. Where the powers are decentralized, they are assigned to non-representative local authorities or to local authorities that are upwardly accountable. Therefore, in the cloud of decentralization, many of the reforms taking place are not establishing the basic institutional infrastructure necessary

as a base for the positive outcomes promised by decentralization.

The success of any effort to implement decentralization depends on continually building and sustaining adequate levels of local government capabilities in terms of: enabling governance; policy and legislative framework; human capital; financial resources and planning; enabling institutional structures; and inclusive service delivery mechanisms. Notably, the history of decentralization in Eastern Africa has seen challenges. Most countries have not been spared these challenges and continue to experience challenges that include:

- a. Capacity constraints in terms of human capital and skills
- b. Duplication of roles and function between the national and local governments
- c. Dependency on development partners for financing development
- d. Delays in delivering funding to decentralized units
- e. Weak civil society
- f. Political pressures and encumbrances
- g. Natural and man-made hindrances
- h. Governance constraints
- i. Inadequate resource mobilization.

## **2. Forms of decentralization**

Decentralization varies from one country to another as a result of respective unique policy implications and the conditions for success that define each feature. Consequently, the framework for decentralization all over the world comprises a continuum with each country lying somewhere within the range. The ensuing clarification helps to put this continuum in perspective: de-concentration, delegation, devolution and federalism.

**De-concentration** is the assignment of authority to public servants which operate at lower or local levels of government and locality to make and implement executive decisions on behalf of the central Government in their localities (Crook and Manor, 1988). It is a form of administrative decentralization without the transfer of the local administration responsibility away from the centre. Thus, according to Crook and Manor, de-concentration remains a local administration within the centralization, since the authority to make decisions or exercise discretion remains within the centre.

Functionally, the object of de-concentration is to transplant the operations or workload of the central Government to the periphery of the State, while ensuring that the central State retains overall control of discharge of the dispersed functions (Cheema and Rondinelli editors, 1983). This in line with the position advanced by Crook and Manor that de-concentration “disperses agents of higher levels of government into lower level arenas”. The agents remain accountable only to persons higher up at the centre, since the central Government does not give up any authority but simply relocates its staff to different levels or points in the national territory (Manor, 1999). Thus, according to Hyden (1983), this arrangement largely indicates that de-concentration is a power relationship within the same organization. This position is supported by Manor who argues that, in practice, de-concentration “tends to constitute centralization, since it enhances the leverage of those at the apex of the system”. Therefore, de-concentration guarantees central control and direct accountability to the centre.

**Delegation** is the transfer of selected public decision-making and administrative functions to autonomous or semi-autonomous organizations as agents of the central Government (Opon, 2007). This is supported by Rondinelli, Nellis and Cheema (1983) and Balogun (2000) who observe that delegation transfers managerial responsibility for specifically defined functions to organizations that are outside the regular bureaucratic structure and are only indirectly controlled by the central Government. The same view is supported by Haque (1997) who describes delegation as the transfer of

functions to the local level but with the ultimate responsibility remaining with the central Government. The sum total of delegation is a process where the central Government allocates some of its functions to the subnational levels to carry out, but does not let them to take full responsibility for these; and central Government does not abrogate its own public accountability for these functions and it does not prejudice its right to retract the functions (Cheema and Rondinelli, 1983).

**Devolution** is the process of transfer of political, administrative and fiscal management powers between the central Government and lower levels of government, primarily operating at the city and regional levels. In this regard, Potter (2001) opines that devolution is not just a linear process of power transfer from national to subnational level but also involves some degree of cooperation between the different levels of government.

According to Rondinelli, Nellis and Cheema (1983), devolution is the creation or strengthening financially or legally of subnational units of government, the activities of which are substantially outside the direct control of the central Government. This form of decentralization, Cheema and Rondinelli (1983) argue in their book, results in the permanent or semi-permanent placement of power to local units, usually through legislative and constitutional recognition. It is an “inter-organizational transfer of power from the centre to institutions that are outside the general command structure of the centre” (Hyden, 1983). The recipients of such powers, usually subnational governments, exercise these powers with a significant degree of autonomy, although the centre still maintains supervisory powers. The subnational units are accountable to their constituencies instead of to the central Government, while accountability to central Government is the case with de-concentration and delegation.

**Federalism** involves two or more states having a common government by dint of political association but the arrangement guarantees that Member States retain a measure of internal autonomy. The constitutional entrenchment of two or more levels of government is therefore a distinctive

feature of federal arrangements (Ochieng, 2012). The concept of federalism is founded on the idea that a political organization should balance between “political integration and political freedom by combining shared rule of some matters and self-rule in various forms on others” (Madison, Hamilton and Jay, 1987). The linkage between decentralization and federalism stems from determining to what extent central authorities should transfer responsibility and resources to local levels and which types of services should be included in decentralization in order to serve the nation most effectively. Both the notions of federalism and decentralization are based on the principle of subsidiarity, which holds that a central authority should play a subsidiary role performing only tasks that cannot be effectively performed at a more local level (Barrett, Mude and Omiti, 2007).

### **3. The evolution of decentralization**

According to Conyers (1983), the popularity of decentralization has been clearly evident from the early 1980s. Thereafter, the concept has undergone a shift in emphasis from de-concentration in the 1980s to devolution in the 1990s. Furthermore, Crawford and Hartmann (2008) provide the perspective that “...whereas deconcentration (and privatisation) was closely related to structural adjustment programmes and attempts to break up the power of the centralized State, influenced by prevailing neo-liberalism, a shift towards democratic decentralization was linked with the general democratization trends from the early 1990s onwards... and a related change in donor emphasis toward participatory governance”. Recent studies show that many developing countries eventually introduced a mix of delegation, privatization and de-concentration, while leaving out the politically most relevant sub-type of devolution.

The evolution of decentralization in Africa has been attributed to factors such as the systematic failure of centralized models (Wunsch and Olowu, 1995; Schmidt, 2003). According to Msewa (2005), the scholars “maintain that centralised systems of government proved inefficient to grapple with the complexity of the development processes. He adds that another factor associated with the evolution of decentralization is “the collapse of state

sponsored services, which is largely traced to the effects of Structural Adjustment Programme”, as alluded to by Schmidt (2003) and Ndegwa (2002). Msewa further argues that “the decline in the menace of warfare and external hostilities in most parts of the world” is also said to have contributed to the evolution of decentralization, according to Dillinger and Fay (1999) as well as World Bank (2000).

Other reasons for the emergence of decentralization include “the maintenance of law and order in the locality” concept, as advanced by World Bank (2000). This is partly the case in States such as Uganda and Burkina Faso. Other instances include the demand for devolution of power, such as the case in South Africa where the National Party and Inkatha Freedom Party were in favour of decentralization (De Muro and others, 1998) as well as external pressure exerted by the supranational funding organizations such as the World Bank and United Nations Development Programme (Rondinelli, 1997; World Bank, 2000; Mutizwa-Mangiza, 2000; and Therkildsen, 2001). Malawi falls under this category. De Muro, Salvatici and Comforti (1998) show that, in the past, France has exerted pressure for political reforms in all French-speaking countries and shaped the type and level of decentralization.

The adoption of decentralization among Eastern African countries was mainly as a result of the realization that highly centralized government was not effective in delivering good governance and democracy; tackling endemic poverty and inequalities; and creating an environment for sustainable development. It was also partly due to external pressure over these same concerns. This meant re-designing the highly centralized Governments and transferring some authority, responsibility and resources (human and financial) for public functions to local governments, other intermediate entities and, to some extent, the private sectors. Table 1 below illustrates the key principles of decentralization that are dominant in Eastern Africa and the associated elements that spur good practice.



#### **4. Decentralization: motives, claims and issues**

There is astonishing consensus among diverse stakeholders on the desirability of decentralization. Generally speaking, the neo-liberal right supports decentralization as it entails a further shrinking of powers of the centralized State. On the other hand, the political left also supports it due to its association with an agenda of democratic deepening, with some progressive civil-society organizations conceptualizing decentralization as accessing wider forums for influencing decision-making processes at the local level. Advocacy for decentralization therefore is derived from various sources, including donor agencies and local pro-democracy movements (Devas and Delay, 2006, pp3 and 678).

A variety of interests and motives define decentralization (Thede, 2008, p3). In Africa, the belief was that decentralization would lead to greater economic efficiency in the allocation of goods and services. As such, an economic motivation prevailed, one closely connected to the neo-liberal mood of the period, with decentralization and privatization and the mobilization of local resources. The 1990s thus saw two interrelated phenomena: the rise of democratization movements in Africa and the addition of "good governance" to the reform agenda of the donors. Indeed, both have catalysed decentralization in general, and induced democratic decentralization, as observed by Olowu and Wunsch (2004, pp38-39).

Indeed, the World Bank and the Development Assistance Committee of the Organization for Economic Cooperation for Development (1997) identified decentralization as a key element of good governance. The bottom line for all of these authors is that decentralization entails greater efficiency in the allocation of economic resources through redefinition of powers and responsibilities between central and local governments, and a better match between government programmes, local preferences and local conditions (Burki and others, 1999; Cohen and Peterson, 1999; Litvack, Ahmad and Bird, 1998).

Proponents of decentralization make great claims for it, as they perceive it to bring government closer to the people, leading to greater political participation at the local level, with citizens more able to make claims on local government and to subject it to greater scrutiny. In reciprocation, it is anticipated that local government will be more knowledgeable about and more responsive to the needs of local populations, including the majority poor. This is in line with the argument of Crook (2003, p77) that this is "an assumption questioned by few", and Smoke (2003, p11) also remarks that decentralization is "commonly treated as an unambiguously desirable phenomenon".

Three expectations are commonly stated: increased equity, efficiency and decreased corruption. Smoke (2003, p9) acknowledges one consequence of the perceived "informational advantage" of local government can be a more equitable distribution of public resources within their jurisdiction. There is also the idea that decentralization contributes to the overall regime consolidation and increases the overall quality of the democratic process by guaranteeing accountability, fostering civic competence and social capital, or strengthening political parties and civil society (Vengroff, 1993; Rothchild, 1996; Smith, 1996; Stoker, 1996).

There are also claims that decentralization has a positive role in mitigating social and political conflict. Following violent conflicts, political decentralization is seen as a compromise strategy to maintain the integration of secessionist groups within the State, while at the same time allowing for a meaningful degree of autonomy over local resources and decision-making (Diamond, 1999, p129). In the recent past, decentralization has been linked to poverty-reduction, especially by most donor agencies, with key reports including those by the World Bank (2004) and United Nations Development Programme (2004).

The analysis in table 1, shows the importance that African countries attach to decentralization as a key enabler of good governance. This yields two observations: (i) in Africa decentralization is not an end in itself but a prerequisite for effective

**Table 1: Principles of good practice in decentralization**

Key elements of decentralization	Principles of good practice
Governance and democracy at the local level	<p>Representative and participatory democracy – How do citizens participate in election of leaders/ representatives to the local governments? How democratic is the electoral system? To what extent have historical (country-specific) issues or factors influenced the system of governance?</p> <p>Local officials and the exercise of their office – Are their roles and responsibilities clearly outlined for purposes of accountability and performance management?</p>
Power and responsibilities of local authorities	<p>Subsidiarity – Does a defined legislative framework exist? Are partnerships (relationships) between different spheres of government well defined?</p> <p>Incremental Action – to what extent are functions devolved top-down? What is the balance between allocated functions and capacity of local governments to deliver on their mandates?</p>
Administrative relations between local authorities and other spheres of government	<p>Legislative action – Are the local government structures entrenched in national legislation (Constitution or Act of Parliament)?</p> <p>Empowerment – how freely do local governments exercise their powers within provisions of relevant laws? To what extent are local governments and local government associations consulted during policy and legislative reforms?</p> <p>Supervision and oversight – Are there any statutory provisions on appointment, suspension or dismissal of local government executives and officials? Is the reporting structure clear? What performance management measures or systems have local governments implemented?</p>
Financial and human resources of local authorities	<p>Capacities and human resources of local governments – what is the role of the central Government, local government associations, private firms, institutions and development partners in training and capacity development?</p> <p>Financial resources of local governments – what is the extent of local governments' financial autonomy?</p> <p>How reliable and adequate are available (current and potential) revenue sources? What is the mix between local revenues (taxes, levies) and other revenues (central Government transfers, borrowings, donors, etc.)?</p>

*Adapted from United Nations Development Programme (2011).*

governance; and (ii) decentralization has become the strategy that Africans are using to deepen participatory democracy, as discussed in the next section.

## **B. Tracing decentralization in selected Eastern Africa countries**

The rationale behind decentralization in Eastern Africa can be discerned from a review of each country's decentralization policy bulletins and policy documents. In general, countries decentralize with the hope of improving service delivery, empowering local institutions and citizens, promoting greater accountability, sustaining the fight against poverty and underdevelopment, improving the reach of government institutions, and fostering national unity. For the countries in the subregion that were reviewed, the chrono-

logical order of adopting decentralization reforms is as follows: Ethiopia, Uganda, Rwanda and then Kenya. This happened within the past 20 years, as discussed below.

### **1. Evolution of decentralization in Ethiopia**

According to Fiseha (2007), Ethiopia is the oldest polity in Africa and decentralization has its longest history there. Decentralization, which existed alongside religion and culture, has held the country together since its formation. Clapham (1993) affirms decentralization as a long-standing tradition of Ethiopians and traces such forms of governance to the period before Emperor Menelik II. The old Ethiopia was a union of several territorial and national units which were governed under different rules. Democratic principles were practised in some of these units (Huntington, 1999).

After the collapse of communism all over the world and of Ethiopia's Dergue regime, a transitional government was formed in 1991, and was based on ethnic composition. With this effort, the foundation had been laid for the formation of the current federal system by the Transitional Period Charter of Ethiopia, Number 1 of 22 July 1991, Article 3/7 (Gemechu, 2012).

Ethiopia implemented its decentralization agenda through the establishment of regional and local governments. Author Egziabher (1998, p33) explains that Ethiopia effected it through a "series of policy proclamations which included Proclamation No. 7/1992 (Transitional Government of Ethiopia, 1992A) that established national-regional self-government, Proclamation No. 33/1992 (Transitional Government of Ethiopia, 1992B) which identified the sharing of revenue between the national/central government and the national/regional self-government, and Proclamation No. 41/1993 (Transitional Government of Ethiopia, 1993) which defined the powers, duties and responsibilities of the central and regional executive organs". The deciding moment was the overthrow of the military Dergue regime.

## **2. Evolution of decentralization in Uganda**

The history of decentralization in Uganda is a patchwork of different forms of governance (Lubanga, 1996). However, the current governance system of decentralization can be traced to Uganda's colonial legacy, where each ethnic group had its own independent system of governance. Uganda has emerged from very mixed systems of governance with some kingdoms exercising very highly centralized hierarchical systems, as manifested by kingdoms such as the Buganda and Bunyoro, while other kingdoms in the North, East and South West had decentralized systems, where power and authority was in the hands of clan heads, some of whom were elected for specific functions (Kauzya, 2007).

Decentralization in Uganda therefore existed before the colonial period. It has passed through various phases, best summarized as: pre-colonial phase, colonial phase and post-independence phase (Lubanga, 1996). The pre-colonial phase

remains the traditional clan governance. After independence, the post-colonial local governments experienced policy changes from decentralization (1962-1966) to centralization (1967-1985) and then back to decentralization (1986 to present).

The current system of decentralization was first revealed in October 1992 in a Presidential Policy Statement, followed by publication in the Local Government (Resistance Councils) Statute of 1993 and enactment into the Constitution of 1995. It was operationalized in the Local Governments Act of 1997 (Lubanga, 1996). The system of decentralization is informed "by a five-tier pyramidal structure, which consists of the village (LC1), parish (LC2), sub-county (LC3), county (LC4), and district (LC5) in rural areas, and the village (LC1), ward or parish (LC2), municipal division and the city are the highest local government levels, while the sub-county, municipality, municipal division, town, and city division are referred to as lower local government levels" (Steiner, 2006, p7). In part, decentralization in Uganda was informed by many years of instability and disruptive politics, because of oppressive military rule.

## **3. Evolution of decentralization in Rwanda**

Following the infamous and unsettling 1994 genocide, Rwanda adopted its decentralization policy in May 2000 to "provide a structural arrangement for government and the people of Rwanda to fight poverty at close range, and to enhance their reconciliation via the empowerment of local populations" (Republic of Rwanda, 2012). Thus, decentralization was born of an internal conflict that was shocking in many ways, including loss of many citizens' lives.

Rwanda's decentralization process began from an initiative by different political partners (including the Government of Rwanda, the World Bank, bilateral donors guided by different political leaderships and left-wing international non-governmental organizations such as Norwegian People's Aid) who joined in stressing the need for prescribing civil society participation in local public spheres as part of the solution to Rwanda's democratic deficit (Harris and others, 2004). This effort

gave birth to the agenda of decentralization and citizen participation in local political structures, in order to promote democratization and development (Skjeseth, 2011).

#### **4. Evolution of decentralization in Kenya**

Kenya has a rich history of decentralization. At independence in 1963, the Constitution provided for a devolved government: a central Government and eight regions (under *majimbo* or federalism), each of which had extensive political and administrative powers for service delivery. The Senate protected the interests of the regions including their powers, functions and funding. This quasi-federal system was a compromise between the centralist Kenya African National Union (KANU) and the federalist Kenya African Democratic Union (KADU). However, within a year, the Constitution was amended to remove the regional governments and establish the Provincial Administration, thereby strengthening the central Government and entrenching regional disparity.

Decentralization was thereafter eroded progressively by over 30 constitutional amendments between 1963 and 1990. For instance, the first national economic blueprint (Sessional Paper No. 10 of 1965) zoned Kenya into high-, medium- and low-potential areas and advocated the focusing of development and investment on the high-potential areas based on the understanding that the economy would experience rapid growth, due to the higher returns on investment in those areas. This centralized planning reinforced the marginalization of areas that had suffered most neglect during the colonial period.

Notwithstanding the above, Kenya experimented with various decentralization strategies in the form of de-concentration, delegation and privatization. The Local Government Act, Cap 265 of 1965, sought to enhance decentralization but failed to guarantee the autonomy of local authorities to function effectively. The increased demand for local services put the delivery and performance systems of local authorities under duress. In 1966, the President appointed a commission to study the future of local authorities with a view to strengthening them. The Government

(in Sessional Paper No. 12 of 1967) accepted the commission's recommendations, but Parliament disregarded the paper and passed the Transfer of Functions Act of 1969 that abolished most grants to local authorities and transferred responsibility for delivering services from local authorities to the central Government. Thereafter, the central Government retained its power over local authorities through subsequent revisions to the Local Government Act, Cap 265, which empowered the Ministry of Local Government to supervise local authorities. Under this law, the Minister had power to review and veto local-authority decisions, nominate council members, and suspend and abolish local authorities.

Other measures adopted by the Government in the 1960s and 1970s to decentralize resources included: the Special Rural Development Programme (SRDP) and the Rural Development Fund (RDF) as integrated decentralized planning programmes coordinated by the National Rural Development Committee from the early 1970s. Further efforts towards decentralization occurred in the 1980s, including the establishment of six regional development authorities to enhance resource mobilization and regional economic planning. In 1983, the Government implemented the District Focus for Rural Development (DFRD) strategy. However, development planning did not ultimately reflect public participation, because of the dominance of government officials in the district development committees.

The decentralization agenda continued under the Local Authority Transfer Fund (1998), which granted 5 per cent of the national revenue to the local authorities with the objective of improving and extending service delivery to citizens, improving financial management and resolving local authority debts. In 2001, the Local Authorities Service Delivery Action Plan (LASDAP) was designed to empower local communities to develop capital-investment plans to meet their local needs and priorities through a bottom-up consultative approach. In 2003, the Constituency Development Fund further promoted the transfer of funds to the "grassroots".

Lastly, the promulgation of the Constitution on 27 August 2010 ushered in the current devolved system of governance in Kenya. The devolved system creates a two-tier government: the national Government and the 47 county governments listed in the First Schedule to the Constitution. Both levels of government are distinct and interdependent and are required to conduct their mutual relations on the basis of consultation and cooperation. It can be argued that one of the most critical events that triggered the decentralization process in Kenya, after several previous failed attempts, was the instability and unnecessary deaths of innocent civilians during the post-election violence that engulfed the country in late 2007 and early 2008.

### **C. Analysis of decentralization in selected East African countries**

Decentralization is seen as the best route to equity among members of the different societies in Eastern Africa. Decisions on distribution of national resources are made at the local level, by the local leaders, who are elected by the locals. Therefore, it is expected that they would consider the priorities of the locals at all times. In theory, this engenders participation and democratization, a key element lacking in places where decentralization is yet to be embraced. It is also acknowledged that participation by the local leaders and people through selection of their representatives provides a forum for local empowerment, fiscal participation and local development. This is because decentralization provides significant opportunities and processes for popular participation and for increased involvement of the people. The residual effect of this involvement is a citizen-driven governance that enhances local service delivery through good governance. Consequently, the net effect of the processes accelerates attainment of national development goals at the local level.

Table 2 presents a summary of the status of decentralization in Eastern Africa, based on 2011 data compiled by the United Nations Development Programme (UNDP).

The analysis incorporates the Commonwealth principles for effective decentralization, as out-

lined in the Aberdeen Agenda<sup>5</sup> and the UN-Habitat decentralization framework. It shows how the selected countries in the subregion had varying rationales and frameworks for their decentralization. These variations are clearly seen across the justifications, legal and legislative frameworks, institutional arrangements as well as financing structures for local governments. This is because decentralization is context-specific and is implemented in various forms by Governments across the region. The common objective is to improve local representation and democratization in order to yield positive outcomes in both democratic and developmental terms.

Over time, political and economic liberalization have opened possibilities or at least revived claims for greater decentralization. Despite varying views on the impetus for decentralization, a growing body of evidence suggests that it emanates from subnational claims for greater autonomy as an extension of democratization, and from Governments pressed to delegate functions and commitments due to external and internal demands for a leaner, more efficient and enabling State.

During the last four decades, as Ndegwa (2002) wrote: "More shrewdly central governments may be eager to decentralize their authority, resources and personnel due to legitimacy concerns" about improving performance and efficiency. In addition, "major development donors have also promoted decentralization as a pathway to improving governance and service delivery in developing countries. In each case, the relative significance of the different causes for decentralization may well predict the extent to which it will succeed and how much governance and service delivery could improve".

Noting the different bases and forms of decentralization that various countries have embraced, a number of scholars (Ndegwa, 2002; Ivanyna and

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<sup>5</sup> The Aberdeen Agenda provides a set of standards to promote healthy local democracy and good governance throughout the Commonwealth. The Aberdeen Agenda: Commonwealth Principles on Good Practice for Local Democracy and Good Governance adopted by the Commonwealth Local Government Forum (CLGF) member organizations on 18 March 2005 as a result of discussions at the Aberdeen conference.

**Table 2: Analysis of the status of decentralization in selected East African countries**

Drivers	Burundi	Comoros	Kenya	Rwanda	Tanzania	Uganda
Justification	Historical civil conflict	Governance	Accountability	Promotion of unity	Union of mainland and Zanzibar	Not donor-driven
	Democracy and representation	Support autonomy of the islands and rule of law	Strengthening local governments through devolution	Promotion of good governance	Political, administrative and fiscal decentralization	Political decentralization
	Promote peaceful co-existence among citizens	Policy of continuity and territorial integrity	Promote collaborative and effective linkage between central and local government	Poverty reduction	Local government human resources management	Transformation of society
	Fight poverty: socioeconomic development of rural residents	Accountability	Efficient, effective and accountable delivery of services	Service delivery	Local government capacity	
Legal/ legislative framework	Arusha Accord 2000	Fomboni Accord	Vision 2030	Phased national decentralization policy	United Republic of Tanzania Constitution	Decentralization Policy
	Decentralization strategy	Constitution	2010 Constitution	Decentralization strategy framework		Constitution (CAP 11)
	Decentralization law	Decentralization strategy	Devolved Government Act	Gacaca Policy	Decentralization Policy	Act of Parliament
Institutional arrangement	New communal law	3 tiers: island, communes and villages	Intergovernmental Relations Technical Committee	Province as the administrative unit	Local Government Reform Programme	
	Provinces subdivided into communes, collines	Communes set up based on population	Devolution Ministry, Council of Governors, Commission for the Implementation of the Constitution, Transition Authority	District as the focal unit for decentralization	Rural: District, township, village	
	Communes set up on the basis of economic and social development	Each island with own criterion of appointing advisors (representatives to commune)	47 counties	Sectors, cells and villages under district	Urban: City, municipality, town	
			Administrative organization guided by principle of subsidiary			

Drivers	Burundi	Comoros	Kenya	Rwanda	Tanzania	Uganda
Financing local development	Minimal central Government transfers	Minimal central Government transfers	Constituency Development Fund (CDF), Youth Enterprise Development Fund (YEDF), Women Enterprise Fund (wef)	District development plans	Local Government Capital Development Grant (for-mula-based system)	Central Government transfers, development partners
	Community mobilization initiatives		Public finance to counties	Participatory planning/budgeting	Project-based financing, e.g Mwanza Project	Fiscal decentralization strategy
	Development partners e.g Ngozi project	Development partners	Equalization Fund	Central Government transfers/ development partners	Expenditure guided by the Local Government Finance Memorandum	Planning guidelines, budgeting manual
	Budgeting/planning guidelines	Own sources	Local sources			

Source: (Adapted from United Nations Development Programme 2011).

Shah 2014) have attempted to build quantitative models for measuring the level of decentralization and ranking countries accordingly. These models are discussed below.

Ndegwa (2002) using a stock-taking survey to develop decentralization indices for 30 selected countries in Africa, covering political, administrative, fiscal and overall decentralization. The maximum score, according to the index, was 4, such that countries with the highest level of decentralization in any of the above attributes scored closest to 4. Those with the least or no decentralization in the measured aspect scored nil. However, the findings from this survey ought to be treated with caution since the circumstances have changed significantly over the past decade. The scores for the nine Eastern African countries that were included in this survey are shown in Figure 5 below.

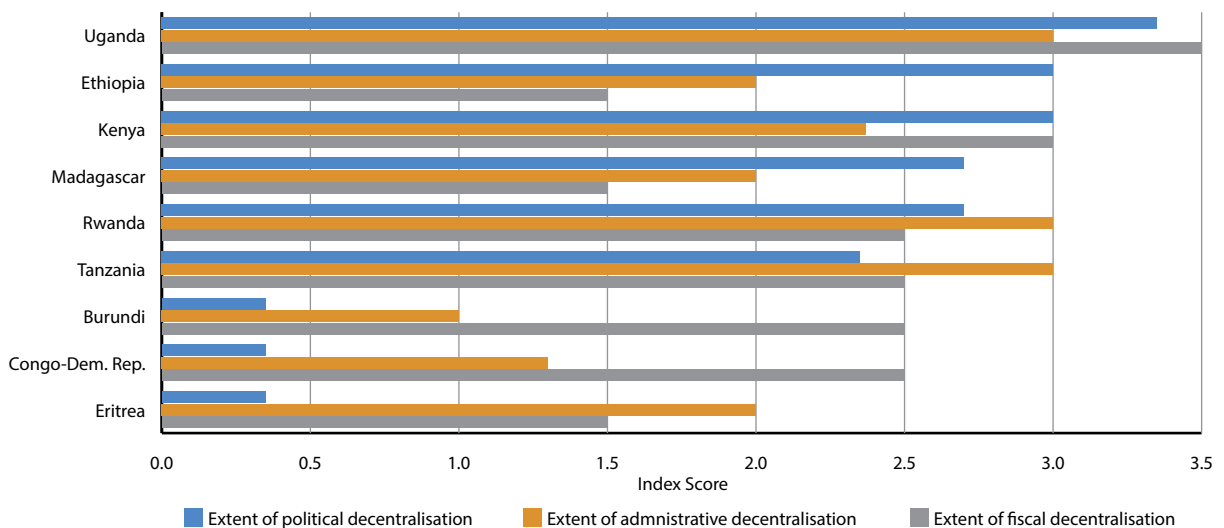
As Ndegwa writes: “The political decentralization index was computed from the mean of the following: the number of elected subnational tiers, the score for the existence of direct elections for local governments, and the score for turnout and fairness of such elections”. Three Eastern African countries (Uganda, Kenya and Ethiopia) scored high (at least 3 on the index) indicating a high degree of political decentralization. A second set of three countries indicated a moderate level of political decentralization, with scores ranging from

2.0 to 2.9; these included Rwanda, Madagascar and the United Republic of Tanzania. The remaining Eastern Africa countries (Eritrea, Burundi and the Democratic Republic of the Congo) returned very low levels of political decentralization.

Administrative decentralization was tracked using “the score for the clarity of roles for national and local governments provided by the law, the score indicative of where the actual responsibility for service delivery resided, and the score indicative of where the responsibility for (hiring and firing) civil servants resided” (Ndegwa, 2002). On this score, Uganda indicated a high degree of administrative decentralization while Rwanda, The United Republic of Tanzania, Kenya, Ethiopia, Madagascar and Eritrea indicated a moderate degree of administrative decentralization, and Burundi and the Democratic Republic of the Congo showed very low degrees of administrative decentralization.

“Finally, fiscal decentralization was measured using two indicators: the score based on arrangements for fiscal transfers from the central government to localities and the score corresponding to the proportion (offered as a range) of public expenditure controlled by the localities” (Ndegwa, 2002). Uganda scored high on fiscal decentralization while Kenya, Rwanda, Burundi and the Democratic Republic of the Congo had moderate levels of fiscal responsibilities anchored at the local level.

**Figure 5: Extent of decentralization in select African countries in 2002**



Source: Adapted from Ndegwa (2002).



This analysis indicates that “the degree to which the various components of decentralization were achieved varied markedly” from country to country. As expected, political decentralization emerged as the most advanced component partly because it is the “local manifestation of the democratic reform that swept the continent in the 1990s”, says Ndegwa. “Administrative decentralization appears as often and is often rated high because administrative reform was the preferred pathway to decentralization (in particular, de-concentration) before democratization”.

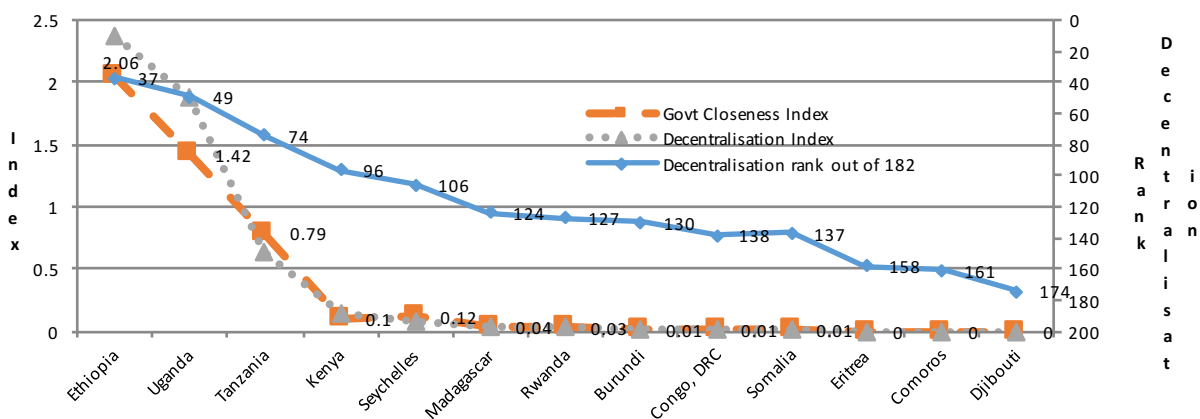
In general, countries that scored high on the index for overall decentralization also scored high on the indices for political and administrative decentralization. Higher scores for political decentralization were associated with economies that have higher economic performance. On the other hand low economic performance was associated with minimal or non-existent democratization, and no elected local governments.

It is noted that for countries with higher economic outcomes, according to Ndegwa: “political decentralization is almost consistently tracked closely by administrative decentralization, while for the low performers administrative decentralization was consistently ahead of political decentralization, a pointer to the concessions these less-democratic countries also have to make to local administration, often the preferred form of decentralization for non-democratic states”.

Recently, Ivanyna and Shah (2014) applied an econometric model on a unique database on local governance in 182 countries worldwide to develop a two-part decentralization measure of: (i) “the closeness of government to its people” and (ii) “decentralization”. The index score for every measure of decentralization is a progressive number such that zero depicts the maximum distance of government away from its people, that is it indicates the least decentralized States. Switzerland returned the highest score of closeness at 31.26 while Denmark scored the highest (34.03) on overall decentralization. Figure 6 below shows the scores of Eastern African countries and their ranking in overall decentralization.

The decentralization scores in figure 6 below show that the Eastern African countries with the most decentralized governments are Ethiopia, Uganda and The United Republic of Tanzania, in that order. This ranking ties well with the fact that two of these countries were among the first to implement decentralization programmes (Ethiopia in 1992 and Uganda in 1995). In the case of Rwanda, the results of the models show low scores on both government closeness and decentralization, mainly due to very low scores in fiscal and administrative decentralization as well as on the relative importance of local government. The results showing that Djibouti, the Comoros and Eritrea were the least decentralized are consistent with expectations.

**Figure 6: Index rankings on closeness to the people and decentralization (2014)**



Source: Adapted from a policy research working paper by Ivanyna and Shah (2014), pp 38-42.

In line with theory and the findings in Ndegwa (2002), the results for Eastern African countries in the data generated by Ivanyina and Shah (2014) - not tabulated in this paper - showed that political decentralization was ranked highest followed by administrative decentralization. Some policy-related inferences that can be made from the empirical findings on the level of decentralization in the subregion are: (i) the logical starting point is political decentralization for countries that have not yet embraced decentralization; and (ii) all member countries should note the lag in fiscal decentralization, which requires country-specific solutions and regional attention.

As noted above, each country is unique in its decentralization history and design. This leads to different forms of decentralization and different results from decentralization for each country.

Table 3 below summarises the forms of decentralization in the countries in the study, plus a few more. In addition, this illustration shows the major legal instruments, key institutions and the year they were enacted.

Among other things, the analysis and tabulation so far underscores the fact that decentralization in Eastern Africa is a not a recent phenomenon. However, from the 1990s to date, decentralization efforts based on national Constitutions started in earnest with Ethiopia in 1992, followed by Uganda in 1995, Rwanda in 2000 and Kenya in 2010.

## D. Fiscal decentralization and federalism

As Abu Girma Moges notes (2005): “A growing number of countries have adopted fiscal decentralization in an attempt to improve the performance of their public sectors. The process broadly entails decisions in identifying some optimal distribution of functions and powers between the federal and subnational governments. This process of decentralization of fiscal authority introduces specialization of functions, better identification of local factors, experimentation of democratic principles and changing the relationship between the government and the citizen-voters in important ways”.

**Table 3: Forms of decentralization in selected Eastern African countries**

Member country	Form of decentralization	Major legal instrument	Key institutions	Year of implementation
<b>Burundi</b>	Fiscal political	<ul style="list-style-type: none"> <li>Arusha Accord (Art. 8, al.2)</li> <li>Art.20 al.13</li> <li>2005 Communal Law</li> <li>2005 Constitution (Art. 267 Title XI)</li> </ul>	<ul style="list-style-type: none"> <li>National interministerial steering and orientation committee on decentralization</li> <li>National Investment Funds for Communes</li> </ul>	2005
<b>Comoros</b>	Fiscal political	<ul style="list-style-type: none"> <li>Fomboni Accord 2001 Constitution</li> </ul>	<ul style="list-style-type: none"> <li>National Representatives</li> <li>Island representatives</li> </ul>	2001
<b>Ethiopia</b>	Fiscal administrative political judicial	<ul style="list-style-type: none"> <li>Proclamation 7/1992</li> <li>Proclamation 33/1992</li> <li>Proclamation 42/1993</li> <li>Proclamation 1/1995 Art.96, 97, 98</li> <li>1995 Constitution</li> </ul>	<ul style="list-style-type: none"> <li>Council of Representatives</li> <li>Council of Ministers</li> <li>Regional Council</li> <li>Regional Executive Committee</li> <li>Wereda Council</li> <li>Wereda Executive Committee</li> </ul>	1992    1995
<b>Kenya</b>	Devolution	<ul style="list-style-type: none"> <li>2010 Constitution</li> </ul>	<ul style="list-style-type: none"> <li>Ministry of Devolution</li> <li>The National Treasury (Ministry)</li> <li>Council of Governors (CoG)</li> <li>Commission of Revenue Allocation</li> <li>The Senate / county governments and assemblies</li> <li>Intergovernmental Relations Technical Committee (IGRTC)</li> <li>The Commission for Implementation of the Constitution</li> <li>Transitional Authority</li> </ul>	2013

Member country	Form of decentralization	Major legal instrument	Key institutions	Year of implementation
Rwanda	Fiscal federalism Devolution	<ul style="list-style-type: none"> <li>• 2003 Constitution</li> <li>• Decentralization policy</li> </ul>	<ul style="list-style-type: none"> <li>• Ministry of Finance and Economic Planning (MINECOFIN)</li> <li>• Fiscal Decentralization Steering Committee</li> <li>• Ministry of Local Government (MINALOC)</li> <li>• Rwanda Governance Board</li> <li>• Rwanda Association of Local Government Authorities (RALGA)</li> </ul>	2001 2005 Act of Parliament
Uganda	Political Fiscal	<ul style="list-style-type: none"> <li>• 1995 Constitution</li> <li>• 1997 Local Government Act</li> </ul>	<ul style="list-style-type: none"> <li>• Government Finance Commission</li> <li>• Ministry of Local Government</li> </ul>	1995

*National Economic and Social Council, Kenya- Compiled from field missions (2015).*

“The experiences of reforming countries have been diverse” and not easy to generalize. “The practices of fiscal decentralization have diverse features and maturity across countries and yet exhibit a common departure from the practice of centralized fiscal systems”. Proponents of fiscal decentralization argue that it provides a superior framework compared with centralized “fiscal policymaking, where interventionist, expansionist, corrupt and inefficient government policies were pursued and failed to deliver efficient public services”.

Fiscal decentralization has become a clear trend in government reform in both developed countries and transition economies. Traditional fiscal decentralization research focuses on the resulting economic benefits which accrue to its use. It has been argued, for example, that local governments are presumed to be more informed on the demographics of their respective jurisdictions, and therefore would allocate public resources more efficiently and more effectively than the central government would consider. This overriding experience created the temptation in a number of countries to experiment with some forms of decentralization of both political and fiscal power.

Literature surveyed shows that, whereas “some countries implement fiscal decentralization, others opt for de-concentration of centralized decision-making without actual fiscal decentralization (Bird, 1993; Martinez-Vazquez and McNab, 2001). In some cases, it has been found that fiscal decentralization follows the political imperative of establishing federal political structures, whereas

in others fiscal decentralization was put in place within a centralized political regime”, also quoted from Moges. Moreover, rolling out fiscal decentralization “before local institutional capacity reaches some critical threshold level of policy implementation and evaluation capability at subnational government levels might involve significant economic cost, inefficiency in resource utilization and contribute to breach of fiscal discipline (Tanzi, 1996 and Prud’homme, 1995)” (also Moges, 2005).

As Moges observes: “Fiscal federalism and decentralization derive their nature and characteristics from constitutional provisions as well as the level of economic development, population size, urbanization, ethnic fractionalization, geographical sectionalism, the pattern of income and resource distribution, the institutional capacity of the system, openness to international trade, and the interaction of political economy forces that shape the principal-agent relationship (Panizza, 1988, Bahl and Nath, 1986, Martinez-Vazquez and McNab, 2001)”. “Fiscal decentralization is defined by the degree to which fiscal decision-making autonomy is devolved to independently-elected and locally accountable autonomous subnational governments. Fiscal decentralization and how it is practiced also affects the other objectives of public finance, namely income distribution and macroeconomic stabilization. The ultimate economic effect of fiscal decentralization on the performance of an economy hence depends on these interactions and how these variables influence the growth and distribution of income opportunities. What are the theoretical arguments for fiscal decentralization?”

Fiscal decentralization has forced countries which embrace it to design integrated policies, planning and budgeting frameworks which focus on outlining interrelated stages that feed into and inform each other. The World Bank (1998) adopted most of these integrated policies and planning and budgeting frameworks. At the centre of the adopted policies is the theme of ownership and sustainability of local projects, which makes it imperative for the people or the beneficiaries to take part in the formulation, implementation, monitoring and evaluation of the projects. According to Oyugi and Kibua (2006) wide participation ensures that stakeholder concerns are adequately addressed, regional development is equitable, and administration and utilization of public resources is efficient.

Arguably, the World Bank framework for the provision of transaction-intensive services offers a good basis of conceptualizing fiscal decentralization. In this framework, transaction-intensive services are those that require repeated, frequent client-provider contact. As alluded by Asingo (in Kibua and Mwabu, 2008), efficient provision of services requires a well-structured service delivery chain, comprising: the citizens or clients, politicians and policymakers, service-provider organizations and frontline professionals.

Ideally, the four service-related actors are strong, capable and embedded in a strong network of accountability relationships that positively influence delivery. Service provider organizations have a clear service provision vision and mission, while frontline professionals need autonomy and initiative, access to adequate resources, and inclination to provide services. Fiscal decentralization guarantees empowerment of citizens to demand services rather than being passive service consumers. This is strengthened by legislative instruments which compel the budgeting and planning processes to be institutionalized and embrace citizen participation as a critical component of development planning and budgeting process.

It must be pointed out that interaction between the actors mentioned above suggests four sets of relationships. First, there is Voice and Politics,

which is the accountability link between citizens and policymakers. Citizens empower and finance politicians through taxes and hold them accountable for the services. Second, there is combat, which is the relationship between policymakers and service providers. Third, there is client power, which is the direct link between policymakers and service providers. Finally, there is management, which is the link between provider organizations and their frontline professionals, through which the former give the latter assignments, delineate their areas of operation and give the latter assignments, delineate their areas of operation and give them resources to use (Asingo in Kibua and Mwabu, 2008). The foregoing suggests that fiscal decentralization provides the prerequisite for conducive institutions which facilitate the structural transformation of any functional society.

Since decentralization brings government closer to the people, the existence of local political arenas makes it easier for ordinary citizens to participate and exert influence. When power is brought closer to the citizens, the political process becomes more tangible and transparent and more people can become involved. Decentralization may also create a more open political system in that it implies a division of powers in society; many channels of representation and power sharing become available. This counteracts the monopolization of power by a clique of elite groups, often the consequence of centralized political and administrative structures.

Despite the benefits of decentralization, Bardhan and Mookherjee (1998) warned that the benefits of decentralized service delivery may primarily go to local elites. However, this notion was negated by Faguet (2004) who “found evidence that fiscal decentralization increases investment in social sectors, such as education, urban development, water and sanitation, and health care”, according to Martínez-Vázquez (2011). A related observation was reported by Arze del Granado, Martínez-Vázquez, and McNab (2005) who found that the share of education and health in total government expenditures increased with fiscal decentralization. Thus, fiscal federalism plays a

major role in the socioeconomic designs and outputs of any society.

According to Martínez-Vázquez (2011): “Classical works by Brennan and Buchanan (1980) and also by Niskanen (1975) depicted government as a revenue-maximizing, mythical leviathan; they argued that mobility of individuals and private companies, fiscal decentralization imposes a check on government growth through tax competition”. As Niskanen (1975) “The theoretical perspective broadly indicates that fiscal decentralization and the assignment of functions can potentially generate economic efficiency of the public sector. If preferences are heterogeneous enough across jurisdictions and local public officials can and do respond to local demands, decentralization can improve allocation efficiency by tailoring services to the preferences of the local population. It follows that local governments are closer to the local population and can identify their choices and preferences better than the central government (Besley and Coate, 1999)”.

Fiscal federalism theorizes that “when the decision to provide a bundle of public goods is made by local officials and these officials are directly accountable to the local voters, there is an incentive for the local officials to provide the type and amount of services that reflect the preferences of the local population. Moreover, as long as there is a close relationship between the benefits from public services and taxes on the local taxpayers, there is additional incentive to use resources efficiently and cost-effectively. The decentralization theorem suggests that under such assumptions and democratic political institutions, decentralization of fiscal decision-making authority improves allocation efficiency of the public sector. Whereas it is possible for both democratic and non-democratic regimes could exercise some forms of fiscal decentralization, the practice sooner or later confronts tensions when democratic institutions are not operational and effective”, as Moges wrote (2005).

“Once the allocation of expenditure responsibilities is conducted according to such broad principles, the fiscal system needs to address the

issue of assigning taxing power that broadly identifies who should tax, where and what (Musgrave, 1983). It is the devolution of taxing autonomy that gives meaning and identity to the devolution of expenditure responsibilities. In the context of fiscal federalism, the assignment process needs to identify the comparative efficiency and effectiveness of providing the fiscal instruments to the multi-tier decision-making centres so as to finance public functions and activities in the most efficient manner possible”.

Fiscal federalism has raised serious concerns over “what kind of taxes should be assigned to the federal government and which should be assigned to the local governments”. As Moges opines (2005): The theory and practice in the assignment of taxation power identifies the following main criteria in assignment process: taxes on mobile tax bases, redistributive taxes, taxes that could easily be exported to other jurisdictions, taxes on unevenly distributed tax bases, taxes that have large cyclical fluctuations, and taxes that involve considerable economies of scale in tax administration should be assigned to the federal government (Musgrave, 1983; Oates, 1996; Sobel, 1997; and Tanzi and Zee, 2000).

“There are efficiency and equity considerations behind such principle of tax assignment. Local authorities should exercise taxing power on other tax bases within the settings and preferences of the local population. The assignment of taxing power between the federal and the regional governments and the provision for concurrent power to share revenues establishes the basic link in which the behaviour of one of the parties would influence the decision-making power of the other and its effective tax base. There is a possibility for vertical tax externality that might require additional policy instruments to correct their effect on other levels of government (Keen, 1998)”.

“The assignment of taxing power is a thorny issue in practice and its application is influenced by a number of considerations. First, despite the legislative assignment of taxes, the actual potency of the tax network depends on the nature and development of the national economy, the rel-

ative distribution of economic activities across jurisdictions, and the administrative efficiency of the taxation system. Second, the practice of fiscal federalism, especially when citizens across regions with diverse economic and demographic situations are treated unequally, gives rise to the violation of one of the core principles of horizontal fiscal equity". This is reflected in the formulas for allocation of revenues to various decentralized units in both Ethiopia and Kenya. Kenya goes the extra mile to employ the same theory in disbursement criterion of its equalization Fund. "Third, despite the monopoly of taxing power resides at the disposal of the national government, the reach of the taxation network depends on the economic circumstances of the potential taxpayers. It is therefore evident that the fiscal assignment issues are dependent not only on constitutional provisions but also on economic, political and institutional factors".

### **Fiscal decentralization as a pillar of structural transformation**

Decentralization practices around the globe and research studies have focused on the causes and motivations for a particular country's undertaking of the reforms necessary to bring about fiscal decentralization. Some contend that, with the advent of globalization, governments no longer wield the financial power of a monopoly. This is because in a global market, competition originates not only from neighbouring countries but also from far away countries that had not previously constituted a competitive threat. Therefore, to compete in the global economy, industrial reorganization is insufficient. Governments must be able to restructure the ways in which they operate, and to respond to the rapid changes and unfamiliar challenges which globalization requires.

Furthermore, with the increasing pressure in many countries for democratization, governments can no longer afford to ignore expressions of discontent and frustration demonstrated by their citizenry in the provision of necessary and adequate public services. It is however true that decentralization designs are critical in determining whether citizens can indeed enjoy the intended benefits

of decentralization. For this reason, it is imperative that decentralization is designed with the perspective that it would contribute to structural transformation by reengineering a new thinking into the process. Such innovative design should exploit unconventional resources and opportunities to spur the much awaited societal transformation.

Certainly, the subnational government is more likely to know the local needs and is therefore potentially more capable of delivering better levels of public services than national government are or could be, primarily due to the fact that most local governments are more closely scrutinized and have the local oversight of those living under their jurisdiction. This provides corresponding levels of accountability for local governments, which is higher and more certain than is possible with the central government. One of the more pressing questions concerns the consequences of implementing fiscal decentralization: why have some States been able to succeed in this regard while others have failed? This question is yet to be answered satisfactorily. A brief comparison of two countries' attempts in this area provides a cogent example of the dilemma.

It is a point of contention that an effective course of action would include different considerations. The process should not be limited to re-assigning public resources to lower levels of government but should include granting discretionary powers, such as taxing, and borrowing, as well as the power to independently appoint personnel at the sub-government level as well.

As Liu writes (2007): "A good number of empirical studies investigate the relationship between fiscal decentralization and economic growth since the 1990s, including Kim (1995), Davoodi, Xie and Zou (1995), Davoodi and Zou (1998), Martinez-Vazquez and McNab (1998, 2001a, 2003), Zhang and Zou (1997, 1998), Lin and Liu (2000), McNab (2001), DeSai et al. (2003) and Lee (2003). Some of the empirical studies are conducted with cross-country datasets while others focus on case studies within a single country but use datasets comprising various national regions. The findings

are that the cross-country evaluations and case studies yield inconsistent conclusions on the issue of whether fiscal decentralization promotes economic growth”.

Nevertheless, Liu continues: “fiscal decentralization has been shown to strengthen social capital and encourage political participation that usually leads to a higher level of accountability for government behaviour” (Inman and Rubinfeld, 1997). “By fostering the emergence and strengthening of democratic institutions, fiscal decentralization reduces opportunities for malfeasance and the misallocation of public resources. Resources that would otherwise be diverted are then available for investment and for the provision of public goods, thereby enhancing long-term economic growth (McNab, 2001). Fiscal decentralization has been further credited with fostering central bank independence (CBI) and thereby ensuring transparency in government as well as in the banking sector (Huther and Shah, 1998)”.

“With respect to democratic governance, many empirical studies have also been undertaken to test this argument. Some scholars focus on the relationship between fiscal decentralization and corruption (Fisman and Gatti 2000; Gurgur and Shah 2002), while others associate fiscal decentralization with some type of general governance indicator, ranging from citizen participation, transparency in government, the rule of law, among others (Gurgur and Shah 2002; De Mello and Barenstein 2001). Despite the diversity of conclusions with regard to the issue of fiscal decentralization versus economic growth, there appears to be greater consensus among the empirical conclusions on the issue of whether fiscal decentralization promotes improved governance”.

Liu further notes: “The primary explanation stems from the fact that macroeconomic stability has a high level of relevance to economic growth. As a result, some take the view that macroeconomic stability is the indirect effect of fiscal decentralization on economic growth (Lee, 2003). Fukasaku and De Mello (1998) have conducted the first empirical study using cross-country datasets searching for the association between fiscal

decentralization and macroeconomic stability”. The researchers used the central government’s fiscal balance, inflation, and growth in money as the indicator for macroeconomic stability. “Their findings suggest that fiscal decentralization is likely to generate fiscal and monetary imbalances that impair growth in developing countries”.

Other researchers, cited by Liu, contend that “fiscal decentralization has an inverse relationship with the size of the public sector”. In the same vein, “Brennan and Buchanan (1980) contend that fiscal decentralization is itself a powerful constraint on Leviathan: competition among governments in the context of the “inter-jurisdictional mobility of persons in pursuit of fiscal gains can offer partial or possibly complete substitutes for explicit fiscal constraints on the taxing power” (Brennan and Buchanan 1980, pp184)”.

## **E. Findings from case studies in Eastern Africa**

Findings from the sample countries corroborate the secondary data to support the argument that fiscal federalism is the bedrock of decentralization. For instance, it was found that Ethiopia has invested highly in fiscal federalism as a way of achieving the desired outputs of decentralization. The country has clearly stipulated how income is to be generated for the federal and regional governments. The rationale for Ethiopia’s fiscal decentralization is to guarantee each level of government the capacity to finance its own social development projects and economic development.

Regional governments in Ethiopia collect rural land-use fees, agriculture income tax from farmers who are not incorporated in an organization, profit and sales taxes from individual traders, tax on income from inland water transportation and income tax, and royalties and land rent levied on small- to medium-scale mining activities. Other revenue sources for the regions include charges and fees on loans and services issued or rendered by regional governments.

However, Ethiopia’s experience presents a case where the responsibilities bestowed on subna-

tional governments, in this case regions, are far in excess of the revenues that can be generated from the specific sources outlined above. This is because the centre controls about 80 per cent of the income resources, such as taxes on international trade, leaving only 20 per cent for the regions.

The revenue arrangements discussed above have the effect that the regions are highly dependent on the centre for their funding. This presents a scenario where the central Government indirectly provides checks and balances on the autonomy of the regions. This reality is witnessed in many countries within the subregion. In Kenya, the national Government has to remit the quarterly expenditure to the counties.

Ethiopia has clear mandates for the federal Government and for the nine regions and the two special regions, namely Addis Ababa and Dire Dawa. The functions of each level of government are very distinct, with regions and *weredas* (districts, the third level administrative region) being the points of fiscal action. The nine regions are subdivided into zones, which are hardly talked about because the focus is on the *weredas* (of which there are over 500) because these are the next points of action after the regions.

The three-tier structure of government in Ethiopia has guaranteed decentralization on the three levels, each accountable to a legislative council and supported by a structured bureaucracy and judiciary. However, fiscal decentralization is limited to the regions and does not extend to the zone or *wereda*. Each region is responsible for collecting revenue from delineated tax areas.

Fiscal decentralization in Ethiopia is therefore different from the others. The unique model is defined by Proclamation 1/1995, Articles 96, 97 and 98. This legislative provision provides the federal Government with the exclusive right to tax international trade and the dominant share of domestic indirect taxes. These two sources have on average a combined share of about two-thirds of the national tax base. This way, the largest source of tax revenue is assigned to the federal

Government. This situation is replicated in all Eastern Africa countries, where the national Governments dominate most of the fertile sources of revenue collection.

In Rwanda, local governments have adequate and predictable flows of income. They raise their revenues locally and get their share from national grants as well. However, the performance in local revenue is low, compared to their share of service to their citizens. The focus is generation of revenues by the national Government and thus it is no surprise that, in the last 15 years, the districts have generated below 20 per cent of the national income from their allocated revenue sources.

One of biggest challenges for fiscal decentralization in the subregion is to ensure effective tax administration, especially given that local government has low capacity in tax administration and it is hard for local governments to attract the appropriate personnel to meet their needs. The high cost of tax administration, associated with a tax-payer base that consists of a large and dispersed rural population whose incomes are very low, is a dampening factor on tax collection by decentralized units.

A common feature of sectoral decentralization in the subregion is the special focus on education, health, infrastructure and agriculture, all of which are shared with the national government. Unfortunately, this arrangement complicates resource allocation as it brings confusion regarding which level of government is in charge of the development agenda in the various areas. This lack of clarity has precipitated turf wars during the passages of fiscal policies in the legislative assemblies in Kenya and Uganda.

Rwanda has institutionalized its management of fiscal decentralization under the National Decentralization Steering Committee, which later evolved to the Local Government Finance Commission and the Fiscal Decentralization Steering Committee, which meets quarterly to oversee the fiscal administration. All these institutions are managed by the Ministry of Finance and Economic Planning.



Uganda's fiscal policy is very similar to that of Rwanda. The districts, which constitute the second tier of government, are closely managed by the Government Finance Commission, a State agency under the Ministry of Local Government. The districts receive their allocations from the national Government and implement the district priorities. Revenue collection is highly concentrated at the level of the national Government, which limits the scope of growing the revenue pool for the districts and other local governments. Nevertheless, Uganda is noted to have a high degree of political decentralization which is a positive indicator for the fiscal accountability at the level of local government.

Kenya has institutionalized fiscal management through the Public Financial Management law which clearly stipulates how revenues are collected and distributed to the counties by the Revenue Allocation Commission. The country has also designated an Office of Controller of Budget with an all-important mandate of regulating budget flows between the two levels of government. In addition, the Constitution provides for an equalization fund for designated and previously marginalized areas, which aims to bring all counties to the same financial footing in an effort to promote equity in development.

## F. Key messages

- a) Over the past 20 years, Member States in Eastern Africa have undertaken various forms of decentralization. This has been done for a wide range of reasons and achieved varying degrees of success.
- b) There is consensus and substantial evidence that decentralization has brought obvious benefits in terms of better allocation of resources and delivery of services, and improvement in the socioeconomic outcomes of the citizens. It can therefore be an important pillar in engendering structural transformation.
- c) The management of the decentralization process can be as important for service delivery as is the decision to decentralize. Ideally, local governments should first be given clarity

about their functions and associated expenditure responsibilities.

- d) A successful administrative decentralization is deeply intertwined with local capacity-building. There are some broadly-accepted principles on how decentralization and capacity-building processes should be sequenced.
- e) A proper institutional design is necessary for decentralization to deliver a better service than a centralized system. This design must deal with all aspects that determine service provision, including expenditure mandates, the revenue sources which are particular to local governments and financing arrangements.

## G. Recommendations

- a) There is need for institutionalization of decentralized structures and positions through a mix of Constitutional provisions, legislation and policies, to protect the progress achieved from regime changes and political cycles.
- b) Political commitment by top leadership and nurturing of national will and ownership are prerequisites for sustainable implementation of decentralization.
- c) A time-bound decentralization implementation strategy should be developed that is country-specific.
- d) Decentralization design must be rooted in independent institutions rather than the political leaders. It should guarantee security of tenure to the institutions and cushion them from undesired political processes.
- e) Fiscal federalism must be based and grounded on empowered local governments with a clear mandate on their scope of revenue collection, budgeting and fiscal administration.

In order to understand the implementation and outcomes of decentralization, the next chapter analyses social dimension within the context of decentralization and the situation in the subregion.

# Chapter III

## Social dimension within the context of decentralization

### A. Introduction

Decentralization has transformed the “structure of governance in Africa” as many countries transfer power, resources, and responsibilities to lower levels of government (Brosio, 2000, p1). Within the subregion, the above is evident in Rwanda, Ethiopia, Kenya and Uganda. This chapter seeks to answer some topical questions in this respect. What frameworks and mechanisms exist for citizens to participate in decision-making, planning and evaluation within Eastern Africa? What are the strengths of and challenges faced in citizen participation? What are the governance and accountability institutions in the decentralization framework in the various countries? What are the modalities and forms of participation? It will also explore the capacities of decentralized institutions in discharging their mandates, as well as issues of organizational capacity, governance, financial capacity and preparation and publication of budgets and audited accounts.

### B. Governance and leadership

The governance and leadership challenge in Eastern Africa remains the problem of unaccountable leadership and weak democratic institutions (Sebola, 2014). This study postulates that credible institutions are essential transmission belts for structural transformation. Yet cases of weak governance and leadership crisis continue to persist within many member States of the subregion, and many are routinely highlighted in the media. Such cases include poor governance, weak institutions, political instability, compromised general elections, tribalism, nepotism and corruption.

The magnitude of this challenge in the subregion can be gleaned from an analysis of the Worldwide Governance Indicators (WGI) which uses a research dataset to summarize the views on the quality of six dimensions of governance that have

been provided by a large number of enterprise, citizen and expert survey respondents in 215 countries<sup>6</sup>. The attributes of governance that the survey examines and scores are shown below:

**Voice and accountability:** the extent to which a country’s citizens are able to participate in selecting their government, as well as the freedom of expression of the media

**Political stability and absence of violence and terrorism:** measures the perceptions of political instability or politically-motivated violence, including terrorism

**Government effectiveness:** reflects perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government’s commitment to such policies

**Regulatory quality:** reflects the ability of the government to formulate and implement sound policies and regulations that permit and promote private-sector development

**Rule of law:** reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police and the courts, as well as the likelihood of crime and violence

**Control of corruption:** reflects perceptions of the extent to which public power is exercised for private gain, including both petty and grand

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6 The WGI data are gathered from a number of survey institutes, think-tanks, non-governmental organizations, international organizations and private-sector firms.

forms of corruption, as well as “capture” of the State by elites and private interest

For the subregion, the 2014 perception scores in percentile rank among 210 countries ranging from 0 (lowest) to 100 (highest rank) is shown in Figure 7 below.

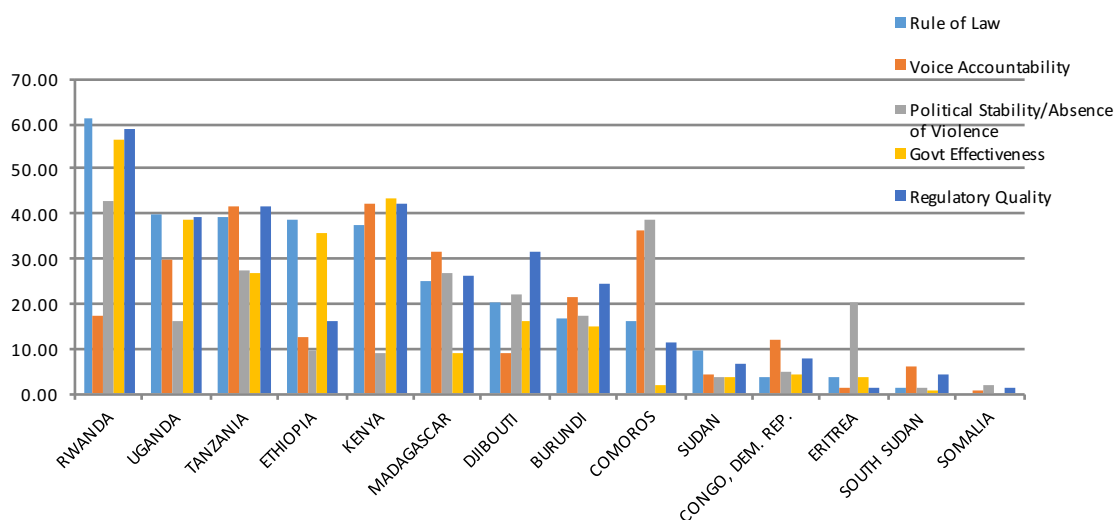
The data below shows that governance scores in the subregion are generally lower than 50; except for Rwanda on the rule of law, government effectiveness and regulatory quality. Supplementary computation of the mean indicator scores supports the above and shows a poor state where the highest mean indicator is rule of law at 22.36; followed by regulatory quality at 22.32; voice accountability at 19; government effectiveness at 18.20; and finally political stability and absence of violence at 17.23. In most of the tabulated indicators, Rwanda is the best performer (mean score of 47.18) followed by the United Republic of Tanzania (mean score of 35.35); Kenya (mean score of 34.84) and Uganda (mean score of 33.77). The countries that score the lowest on governance are Somalia (mean score of 0.78); South Sudan (mean score of 2.53); Eritrea (mean score of 5.91); and the Democratic Republic of the Congo (mean score of 6.51). Finally, the grand average score for these

indicators and the subregion is a mere 19.82, which points to the fact that the Eastern Africa member States are weak in governance.

A governance issue of great concern that remains a big challenge in the region and therefore deserving special mention is corruption. Table 4 below shows the rating of the subregion with respect to corruption using two indices: the World Governance Indicator for Government control over corruption<sup>7</sup> and the corruption perception index. The comparative scores for 2008 and 2014 provide insights into how the region has fared over time on governance indicators.

Table 4 shows good rankings for Seychelles and Rwanda on Government control over corruption in 2014, Seychelles was ranked 76 and Rwanda 79 out of 210 countries. The same countries scored the highest in the region in the Corruption Perception Index in 2014: Seychelles was at position 43 and Rwanda at 55 out of 174 countries. The rest of the Eastern African economies are rated poorly in Government control over corruption and also record very high rates of corruption perception. South Sudan and Somalia were ranked among the bottom five countries globally in both indices.

**Figure 7: Governance perception in the Eastern Africa subregion**



Source: National Economic and Social Council illustration adapted from the Worldwide Governance Indicators. <http://data.worldbank.org/data-catalog/worldwide-governance-indicators>.

7 The WGI scores are in percentile rank among all countries ranging from 0 (lowest) to 100 (highest rank): The highest at 100 per cent were as follows: Denmark in 2008 and New Zealand in 2014.

**Table 4: Control over corruption and Corruption Perception Index (CPI) in Eastern Africa**

Country	WGI: Government control over corruption				Corruption Perception Index			
	2008		2014		2008		2014	
	Index	Rank / 206	Index	Rank / 210	Index	Rank / 180	Index	Rank / 174
Burundi	14.56	177	9.62	189	1.9	158	2.0	159
Comoros	23.79	158	36.54	133	2.5	134	2.6	142
DRC	7.28	192	6.73	195	1.7	171	2.2	154
Djibouti	51.46	101	37.98	130	3	102	3.4	107
Eritrea	46.6	111	20.19	167	2.6	126	1.8	166
Ethiopia	30.10	145	40.87	124	2.6	126	3.3	110
Kenya	13.11	180	16.35	175	2.1	147	2.5	145
Madagascar	54.85	94	22.12	163	3.4	85	2.8	133
Rwanda	62.14	79	76.92	49	3	102	4.9	55
Seychelles	63.59	76	66.83	70	4.8	55	5.5	43
Somalia	..	..	0.48	208	1	180	0.8	174
South Sudan	...	...	0.96	207	...	...	1.5	171
Tanzania	41.75	121	22.60	162	3	102	3.1	119
Uganda	20.87	164	12.02	184	2.6	126	2.6	142
Mauritius	73.79	55	67.79	68	5.5	41	5.4	47

Source: Transparency International: <http://www.transparency.org> and Worldwide Governance Indicators.

An analysis of the indices in the table above shows that the subregion's average score for government control of corruption was 35.84 in 2008 but this deteriorated to reach 26.44 in 2014. During the same period, the global average score improved by 1 per cent. The main countries that led the decline in the score for Government control over corruption were Madagascar, Eritrea, the United Republic of Tanzania and Uganda, and they outweighed the improvements in the Comoros, Ethiopia and Rwanda.

High levels of corruption invariably lead to high cost of doing business, which impedes production and productivity. In addition, high levels of corruption in the form of misappropriation or looting of public resources deprive the citizens of basic services such as rural access roads, habitable public housing, basic health and education, maternal and infant nutrition programmes, access to clean and drinkable water, and many other in-demand public goods. This results in limited access and poor quality of services, which might account for

the persistent low levels of human development despite high levels of economic growth.

Given the high levels of corruption, it is conceivable that economic development and structural transformation will be hampered. There is general inability by national governments to supply sustainable education and health services. These are critical in generating a skilled labour force, which in turn is a critical engine in the structural transformation of economies. The reallocation of labour from traditional sectors such as agriculture to manufacturing and service sector may be delayed. Moreover, the existence of unchecked corruption may also hamper the objectives of decentralization in many Eastern Africa countries and thus delay the improvement of service-delivery as well as the structures and institutions that herald and facilitate decentralization. The existence of a very strong correlation between government control over corruption and Corruption Perception Indices implies the large task facing governments to crack this governance malaise.

### C. Situating public participation within the decentralization process

Traditionally, the theory was that centralized development planning was the engine of faster economic development through modernization (Rostow, 1960); increasingly, a burgeoning literature is challenging centralized systems of development planning. This emerged during the 1970s and 1980s and was concretized through the 1990s and in twenty-first century development literature (Osei-Kufuor and Bakare, 2013). This literature has demonstrated the importance of decentralization in fostering improved governance and responsive human development (World Bank, 2000; Cheema and Rondinelli, 2007; Osei-Kufuor and Bakare, 2013).

It is also argued that decentralization promotes institutional reforms that allow for allocative efficiency and citizen participation at the lowest unit of administrative decision-making (Lane, 2005). Broadly speaking, there are five major reasons why public participation is essential: Public participation enables decision makers to get to know the preferences of the citizens; it improves the quality of public decisions; it advances fairness, justice and equity in decision-making; public participation gives legitimacy to public decisions; and public participation is a constitutional and

legal requirement in many decentralizing States (Innes and Booher, 2004).

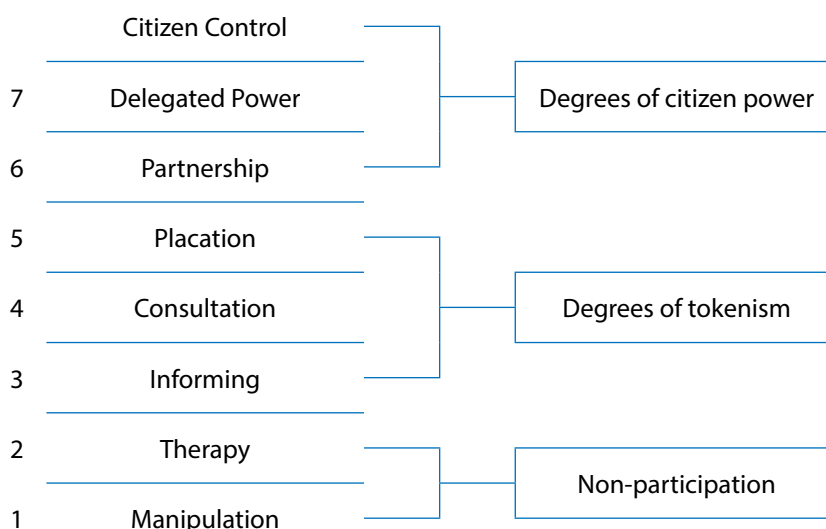
Public participation is a core principle of good governance and democratic consolidation. Several studies have sought to create ladders to depict the levels of participation (Arnstein, 1969; Renn and others, 1993; Bishop and Davis, 2002; Barnes and others, 2003).

In Figure 8 below, Arnstein (1969) provides an analysis of public participation that suggests that the highest degree of public participation is attained when power, control, and partnership in making decisions have been delegated to the citizens. The author sees very little participation when citizens are just informed, consulted, and placated, and refers to this process as “tokenistic”.

### D. Decentralization and structural transformation

Decentralization is a sure route to transforming the way societies operate and addressing the socio-economic and political systems and institutions that are needed to change societies. There is literature on how decentralization has addressed the problems of gender inequality, poverty, income inequality, environmental degradation, access to education and improved health care (Work, 2002). Some scholars see decentralization as a “superior good” for which the demand around the

**Figure 8: Arnstein’s ladder of participation: a conceptual representation**



Reprinted in Lane (2005, p285).

world has increased considerably with the rise in income. Tanzi writes: "as countries become richer, they may demand more of it. If this assumption is correct, decentralization will become even more popular in future years" (Tanzi, 2001, p2).

Public participation is a sure gateway to mainstreaming self-reliance and open dialogue and better working relationships between local populations and their elected leaders. For example, the Local Initiative Facility for Urban Environment (LIFE) programme in the United Republic of Tanzania has strengthened civil society and local governance institutions and built capacity to resolve local problems. Studies show that citizens are willing to pay for services and other taxes when their preferences are reflected in the use of local resources. Figure 9 below shows a summary of the outcomes of devolution that was produced by the Centre for Devolution Studies at the Kenya School of Government (2014).

The excerpt from the working paper clearly shows that decentralization can lead to transparency, accountability and improved service delivery if properly implemented. Devolution is still in its infancy in Kenya, so its full benefits are yet to be realized.

The literature on public participation in decentralized institutions also points to decentralization

as a cure for the problems of social exclusion, democratic deficit and voter apathy. According to Barnes and others (2003), the process of public participation also permits social inclusion and democratic renewal. In addition, public participation can increase the civic standing and legitimacy of government functionaries and elected officials because citizens see their preferences and local decisions being reflected in policy decisions and projects (Barnes and others, 2003; Bishop and Davis, 2002). As a process of enhancing transparency and the accountability of elected officials to the citizenry, decentralization can markedly "satisfy the aspirations of citizens" (Bishop and Davis, 2002) through facilitation and involvement in policymaking.

Declining trust in public institutions, the rise of social movements, public-sector change and new expectations of service quality have made elected officials sensitive about legitimacy. Participation becomes an attractive strategy not just for policy improvement, but for drawing disaffected citizens back to the political mainstream (Bishop and Davis, 2002, p15).

The rationale for public participation is two-fold. First, it is the democratic right of citizens to be "involved in the public policy process" and, secondly, it produces "better policy outcomes" (Rydin and Pennington, 2010, p155). A desirable

### Figure 9: How public participation transforms policy outcomes

- Helps citizens to understand the roles and jurisdiction of country governments, services they are responsible for, and to channel issues to the appropriate level of government; understand the political and administrative environments and challenges facing countries;
- Can result in additional revenue for local development;
- Can break down barriers between citizens and countries, improving mutual understanding, communication and trust in country government programmes and projects;
- Makes infrastructure and services more relevant to the citizens;
- Creates opportunities for engaging, educating and empowering citizens to participate meaningfully in resource utilization;
- A cost-effective way of planning for scarce resources, and can unlock resource potential;
- Promotes transparency and helps the country to reduce corruption and bureaucratic inefficiencies;
- Enhances business community cooperation - by promoting transparency, reducing corruption and increasing efficiency, participation increases investor confidence;
- Provides opportunity for marginalized groups to be heard; and
- Provides a platform for ownership of projects thus ensuring sustainability.

Source: Centre for Devolution Studies (2014), p1

**Figure 10: Arguments for and against decentralization**

Arguments favourable to decentralization	Arguments against decentralization
<ul style="list-style-type: none"> <li>• Local government have better information about local preferences, needs and the way systems operate and can therefore allocate resources in a more efficient way</li> <li>• Quality of service provision can be improved since local governments are likely to be more sensitive to variations in local requirements and open to feedback from service users</li> <li>• Local governments are more accountable to local communities</li> <li>• Decentralized governance increases the chance for the poor to access policy processes</li> <li>• Local action can solve problems of collective action, providing sustainable use of common property resources</li> <li>• Decentralization makes governments more responsive to the demand of local people by promoting competitiveness between sub-national governments</li> <li>• Decentralization may lead to more creative, innovative and responsive programmes by allowing local experimentation and by improving competitiveness of governments</li> <li>• Decentralization may make cost recovery less difficult for governments as people may be more willing to pay for services if such services respond to their priorities and particularly if they have been involved in the decision-making process</li> </ul>	<ul style="list-style-type: none"> <li>• Economies of scale at central level justify centralization of services</li> <li>• Agglomeration economies in attracting skilled civil servants to the centre justify centralization</li> <li>• Local governments are more subject to corruption and elite capture</li> <li>• Local governments can be regressive - minorities may find it more difficult to organize locally</li> <li>• Decentralization can aggravate regional disparities in the provision of public services</li> <li>• Decentralization can make coordination of national policies more complex</li> <li>• Decentralization increases macro-economic risks of over-expanding the size of the public sector</li> </ul>

**Source:** Cabral, (2011, p.3). "Decentralization in Africa: Scope, Motivations, and impact on Service Delivery and Poverty." Working Paper no. 020. Future Agricultures [www.future-agricultures.org](http://www.future-agricultures.org).

outcome is that engaged citizens become co-creators and co-producers of improved governance and responsive development.

The desire to increase popular participation in the planning and implementation of development programmes is sought partly as a means of making plans more relevant to local needs and, in some cases, enlisting local support in their implementation. This helps to improve the quality of rural development efforts (Conyers, 1983, p100).

Figure 10 above provides a basic qualitative analysis of arguments for and against decentralization in promoting the social capital of citizens.

The lessons to draw from the above figure relate to how public participation has been critical in decision-making, and the inherent improvement that public input brings to the quality of decisions made. The involvement of citizens generates ownership and also empowers citizens to be part of the problem-solving equation. Empirical evidence suggests that societies that are democratic and that encourage citizens' participation achieve

faster economic growth and social transformation (Cabral, 2011). It is surmised that the solution to transforming decision-making processes and governance structures in Eastern Africa lies in improved citizen participation.

### **E. Constitutional and legal provisions for public participation**

Given the importance of public participation in decentralized units, the study sought to establish whether constitutional and legal frameworks and mechanisms exist in Eastern Africa for citizens to participate and be involved in decision-making, planning and evaluation.

The review of constitutional and legal documents in Ethiopia, Kenya, Rwanda and Uganda shows clear constitutional and legal mechanisms for public participation, as indicated in Table 5.

Although a review of the literature shows that the constitutional and legal provisions guaranteeing public participation have structurally transformed the governance sector in the surveyed countries, it was also shown that there is restricted space for

**Table 5: Constitutional and legal provisions for public participation**

**ETHIOPIA**

The Transitional Period Charter of Ethiopia, Proclamation Number 1/1991, and the Constitution of the Federal Democratic Republic of Ethiopia (1995) laid the ground for citizen participation and involvement in governance. These two are formally provided for through the kebele, which is the lowest administrative unit. A kebele consists of a large number of households in a rural or urban neighbourhood, and its major function is to coordinate socioeconomic activities at the grass-root level.

**KENYA**

Public participation is backed by a Constitution and a legal framework that include provisions for government to share information, consult the public and regularly gather feedback from citizens.

These include the Constitution of Kenya 2010 (Articles 10, 35, 118, 174, 201 and 232); the Acts of Parliament on devolution (County Governments Act 2012, Sections 47, 89, 91, 94, 95, 96 and 99-100; Public Finance Management Act 2012, Sections 125, 128, 131, 137 and 207; Urban Areas and Cities Act 2011, Sections 21-22); and Public Participation Strategy 2016.

**RWANDA**

Public participation guaranteed under the National Constitution of 2003 and the Decentralization Policy (2000), which was revised during 2012-2015 to “enhance and sustain citizens’ participation in initiating, making, implementing, monitoring and evaluating decisions and plans that affect them by transferring power, authority and resources from the central to local government and lower levels, and ensuring that all levels have adequate capacities and motivations to promote genuine participation”.

Citizens participate in councils at various levels: village, cell, sector, districts and City of Kigali. Every citizen above 18 years is a member of the village council.

**UGANDA**

Public participation was launched in October 1992 through a Presidential Policy Statement, followed by the Local Government (Resistance Councils) Statute of 1993 and later the Constitution of 1995 and the Local Governments Act of 1997. Chapter 11 of the 1995 Constitution provides for a decentralized system. Public participation is attained through local councils all the way to the village level, through the districts.

civil society organizations to contribute to effective public participation. In many developed societies, the pluralist literature suggests that organized groups and other civil society organizations play a critical role in expanding the democratic space by providing civic education and empowerment (Cabral, 2011).

Increasingly, the granting of public participation in Eastern Africa has occurred within heightened restrictions on the operations of organized interest groups. A report by the International Center for Not for Profit Law (ICNL) says “in the last several years, countries including Ethiopia, the Sudan, Uganda, Zambia, Sierra Leone and Zimbabwe have considered or enacted legal measures and/or policies that restrict civic space” (ICNL, 2011). And indeed this study established that within the subregion Kenya, Uganda, Ethiopia and Rwanda are examples of countries that have various laws restricting the role of civic organizations.

In Ethiopia, civic organizations “must notify the regulatory authorities within seven days of a general assembly meeting” or any other major meet-

ing in civic education and programming of events has taken place (ICNL, 2011).

In Kenya, the Non-Governmental Coordination Board as a State corporation has published regulations designed to restrict the operations of civic organizations. The board issued a notice dated 29 October 2014 designed to cancel the registration certificates of 959 Kenyan non-governmental organizations. In 2013, the national Government, through the Ministry of Devolution and Planning, published the Public Organizations Benefits Bill (2013) intended to monitor and restrict the operations of non-governmental organizations. Section 27 A (2) stated that “A Public Benefit Organization shall not receive more than 15 per cent of its total funding from external donors”. The attempt to pass the Act raised serious constitutional issues resulting in a legal fight between the government and civil society organizations.

In Uganda, the national Government on 10 April 2015 “published in the official gazette the Non-governmental Organizations (NGO) Bill, 2015. Among other issues, the Bill grants the



NGO Board broad powers to refuse to register an NGO, to issue permits with instructions that place conditions on the staffing of NGOs, and to restrict the employment of foreign nationals" (NGO Law Monitor, Uganda).

Despite the above restrictions, it is evident that the legal provisions have empowered ordinary citizens to fight for public participation, and this has also changed how laws and policies are enacted throughout Kenya. For instance, a number of legal suits have been filed in court challenging national and county policies and legislations. The High Court of Kenya has ruled in favour of public participation by annulling laws. For example, at the national level, the High Court declared eight sections of the Security Amendment Bill of 2014 unconstitutional. In a major ruling concerning the affairs of county governments, the citizens of Kiambu County petitioned the High Court to declare the Kiambu Finance Act 2013 null and void for not upholding the principles of public participation. In the ruling delivered on 17 April 2014, Justice George Odunga ruled that the county government failed to "involve" and "facilitate" public participation.

"In my view, public participation ought to be real and not illusory and ought not to be treated as a mere formality for the purposes of fulfillment of the Constitutional dictates. It is my view that it behoves the County Assemblies in enacting legislation to ensure that the spirit of public participation is attained both quantitatively and qualitatively. It is not just enough in my view to simply "tweet" messages as it were and leave it to those who care to scavenge for it. The County Assemblies ought to do whatever is reasonable to ensure that as many of their constituents in particular and the Kenyans in general are aware of the intention to pass legislation and where the legislation in question involves such important aspect as payment of taxes and levies, the duty is even more onerous... Accordingly, I hereby declare that the Kiambu Finance Act, 2013 gazetted vide Kiambu County Gazette Supplement No. 8 (Act No. 3) violates the

Constitution and that the same is null and void". Justice Odunga, 2014.

The findings from the field work indicate that in Ethiopia public participation in decisions and policy is perceived as limited. This may be due to the lack of a culture of dialogue, compromise and negotiations, perhaps due to earlier periods of centralized authority under military rule and monarchy. Another aspect is the official Government position that the civil society has no constituency to represent the poor or marginalized. This is compounded by legislative provisions that restrict the operations of civil society and gives little freedom to the media to shape opinion for informed debate on policy, law and governance. Moreover, potential complaints and criticism of the Government may also be shielded by the high economic growth rate. Regional governments also play a role to control complaints at grass root level. Various development partners have stepped in to support initiatives for citizen participation. The Government has the power to check on the media but the media cannot check on the Government. The government is left to check itself as there is little feedback mechanism to the government, and high suspicion and mistrust of civil society.

In Rwanda, the adoption of decentralization was itself driven by public participation. The policy was "formulated after a series of dialogue sessions with citizens and consultations with experts on how Rwandans could turn their page permanently for the better in terms of good governance and well-being in which Rwandans themselves would be in charge of their destiny" (Republic of Rwanda, 2012, p6). Rwanda has strong governance structures that ensure effective public participation, such as the National Dialogue Council, Ministry of Local Government (MINALOC), Territorial Administration and Good Governance, the Rwanda Governance Board and the Rwanda Association of Local Government Authorities (RALGA). The last is an association of all the 30 districts created in 2003 after decentralization policy was adopted. It is a platform of the districts to share experiences and advocate their issues. It represents the local

governments of Rwanda, and its activities include advocacy and capacity-building.

The President of Rwanda holds a two-day event annually in which ordinary people can call in and lodge complaints and seek executive assistance in resolving local matters. Decentralization has structurally transformed governance and leadership in Rwanda, as it has allowed new leadership platforms to emerge headed by women and youth. Other entities include the National Decentralization Stakeholders' Forum, the Programme Steering Committee, the National Decentralization Implementation Secretariat (now incorporated in Rwanda Governance Board) and the Decentralization Cluster, as indicated in the Rwanda Decentralization Framework (Republic of Rwanda, 2012).

Furthermore, there are decentralization focal points in ministries and provinces, as well as Local Government Consultative Forum that complement MINALOC and Rwanda Governance Board by bringing together other ministries, agencies and non-State entities. Rwanda has implemented wide ranging affirmative action programmes to redress gender inequality and also supported stronger local government structures through reforms, performance innovations known as "Imihigo," community mobilization, leadership accountability and transparency, and enhanced community participation (Republic of Rwanda,

2012, p6). Table 6 below shows the level of public participation based on the Citizen Report Card, 2010.

The citizen report shows very high participation levels in community work (93.2 per cent) and election of leaders (92.2 per cent). A poor score was reported on the participatory budgeting process at district level (11.2 per cent) and the formulation of: performance contracts (23.6 per cent); district development plans (11.7 per cent); and district council agenda (10.8 per cent).

The bottom ranking of areas covering decision-making may indicate a capacity challenge among citizens who are likely to be more attuned to basic operational processes than intellectual activities. An overall average score of 50.3 per cent on citizen participation suggests a fair level of achievement.

In Uganda, the main challenge to effective public participation is the political monopoly and power of the National Resistance Movement (NRM) at national and district levels. There is lack of adequate financial resources to run local authorities as a result of the arrangement where local revenues are divided between national Government and the divisions, with divisions retaining 50 per cent and forwarding the other 50 per cent of

**Table 6: Levels of participation in different domains in Rwanda**

LEVEL OF PARTICIPATION IN DIFFERENT DOMAINS IN RWANDA		
No.	Area of participation	Ranking
	Community work	93.2%
	Election of leaders	92.2%
	Financial contribution	84.8%
	Expression of views in different forums	82.2%
	Voluntary acceptance of responsibilities in leadership	66.4%
	Monitoring of services and holding leadership accountable	26.4%
	Formulation of performance contracts (Imihigo)	23.6%
	Formulation of district development plans	11.7%
	Participatory budgeting processes at district level	11.2%
	Formulating of district council agenda	10.8%

Source: Rwanda Governance Board (2011). Citizen Report Card, 2010, as reported in Republic of Rwanda (2012, p13)

collected revenues to the national Government (Stenier, 2006).

## F. Conclusion

The quest for decentralization remains vivid in Eastern Africa. Increasingly, the reasons behind the decentralization agenda have stretched from those driven by political interests to those seeking to improve governance and delivery of public services. The analysis has shown that constitutional and legal frameworks and mechanisms exist for citizen participation and involvement in decision-making, planning and evaluation with Eastern Africa. These mechanisms have indeed transformed the relationship between decision makers and the public. In addition, the legal framework has empowered citizens in countries such as Kenya and Rwanda.

In Kenya, for instance, this is revealed in the number of legal cases filed by ordinary citizens seeking to nullify national and county government rules and regulations that may not have adhered to the principles of public participation. The challenge observed is that there is serious need to build the capacity of both the State organs and the public on what really effective public participation entails. Also, citizen participation has been frustrated and hampered by unfavourable policies, laws and regulations on the media and civil society.

In Rwanda, decentralization has increasingly led to more local participation with increased delegation of public matters to local markets through privatization and decentralization reforms. As Törnquist (2009) observes that it is this background that provides Rwanda with the positive philosophy of embracing decentralization, which provides for localized political mobilization around local, national and global agendas.

The study has established that governance challenges and especially corruption continue to be worrisome endemic weak spots or "Achilles' heels" in the subregion. Poor scores under global indices both on government designs to curb corruption and on the perception of corruption attest to the enormity of the problem. The answer to structurally transforming decision-making processes and

governance in Eastern Africa may lie in improved citizen participation through effective decentralization.

## G. Key messages

- a) There exist fragmented rules and systems for public participation in Eastern Africa. Without well-functioning systems, the benefits of public participation may not be realized
- b) There is very limited capacity and resources geared towards public participation
- c) There is weak accountability and transparency in the region. Public participation from a pluralistic sense assumes the existence of highly liberal democratic State; however, most countries in the region are nowhere near true democracies. Despite the majority of civil society organizations being vibrant, their activities remain suspect within government corridors and at the same time the State agencies have used cooption to weaken civil societies, thus undermining the capacity of civil society organizations to contribute effectively to public participation through civic education and empowerment. Several countries have laws restricting the role of civic organizations
- d) There is generally no concrete comparative empirical data on public participation within the Eastern Africa region
- e) With the exception of Rwanda, which uses a citizen report card, there are no formal evaluation and reporting mechanisms for citizen participation in the subregion.

## H. Recommendations

- a) To ensure effective public participation, countries within Eastern Africa and their decentralized units need to develop and implement a minimum check list of what constitutes public participation and to put these frameworks into operation
- b) There is need at all levels to create multiple and accessible user-friendly communication channels to share information, enhance peer-

to-peer learning and best practices across the board

- c) For effective public participation to take place, the citizens must access government documents. Decentralized units should provide effective public and civic education and provide documents to the citizens
- d) It is recommended that clear policy implementation frameworks and strategies be developed, including the unbundling and costing of functions between the various levels of assigned responsibilities, in order to avert wastage and duplication. The challenge observed so far is that policy intentions exist; however, the unresolved issue is as to how those intentions and proclamations are to be implemented

- e) Finally, it is recommended that efforts be made to streamline intergovernmental relations and coordination mechanisms between political, administrative and technical roles across the board.

As discussed above, one of the key aims of decentralization in any country is to deliver effective services to the citizens. The following chapter examines service delivery within the context of decentralization in the region.

# Chapter IV

## Service delivery within the context of decentralization

### A. Introduction

It is acknowledged that the performance of the public service in decentralized systems is an important consideration for sustained transformation to occur. Based on the premise that one of the key tenets of decentralization is an improvement in service delivery to the citizens, a critical consideration in decentralization discourse must be how functions are shared between the centre and the subnational units. This chapter examines service delivery within the context of decentralization and how such arrangements facilitate or hinder structural transformation. Among other services, special attention will be paid to health, education, security, agriculture and infrastructure. An important question that will be addressed in these discussions is whether institutions related

to decentralization in the Eastern Africa region have led to better service delivery.

### B. Decentralization and service delivery

Although the bulk of decentralization efforts in Africa were driven by “political motivations” and “consisted mostly of de-concentration of administrative functions, rather than true devolution of powers” (Cabral, 2011, p2), empirical evidence suggests decentralization has made significant contributions to the way governments and their agencies provide services at the lowest possible units. The push towards decentralization is largely driven by the desire to improve the delivery of public services and to eradicate problems of poor service, poverty, high dependency and inefficient

**Table 7: Poverty and indicators of income distribution in Eastern Africa**

COUNTRY	Survey year	National poverty line*	International poverty line		Gini Coefficient**	Share of consumption (%) Lowest 10%
		Population below the poverty line (%)	Population below the poverty line (%)	Below \$1.25		
		National	Survey year	Below \$1.25		
Burundi	2006	66.9	2006	81.3	33.3	4.1
Comoros	2004	44.8	2004	46.1	64.3	0.9
DRC	2005	71.3	2006	87.7	44.4	2.3
Djibouti	...	...	2002	18.8	40.0	2.4
Eritrea	1993	69.0	...	...	...	...
Ethiopia	2011	29.6	2011	36.8	33.6	3.2
Kenya	2005	45.9	2005	43.4	47.7	2.0
Madagascar	2010	75.3	2010	87.7	40.6	2.6
Rwanda	2011	44.9	2011	63.0	50.8	2.1
Seychelles	2006	37.8	2007	0.3	65.8	1.6
Somalia	...	...	...	...	...	...
South Sudan	2009	50.6	...	...	...	...
Tanzania	2012	28.2	2012	43.5	37.8	3.2
Uganda	2009	24.5	2013	37.8	44.6	2.5

**Notes:** \* The national poverty line is defined as two-thirds of the average consumption.

\*\* The Gini coefficient is defined on income distribution.

**Sources:** Domestic authorities and World Bank, Online Database, Country Demographic and Health Surveys.

public systems. However, as illustrated in Table 7, poverty remains a great challenge in Eastern Africa with a majority of the citizens living below the international poverty line, while income inequalities show up in skewed distribution of consumption.

The countries with the largest percentage of the population living below the international poverty line of \$1.25 per day were: Madagascar (88 per cent), the Democratic Republic of the Congo (88 per cent) and Burundi (81 per cent). Unequal distribution of income is also prevalent with substantial Gini Coefficients in Seychelles (66 per cent) and the Comoros (64 per cent) and the share of national consumption by the lowest 10 per cent (of the population) is estimated at 1.6 per cent in Seychelles and 0.9 per cent in the Comoros. The reported high level of poverty among a large part of the population, combined with substantial income inequalities, poses a moral question of equity, presents potential for political instability and suggests lack of depth in structural transformation.

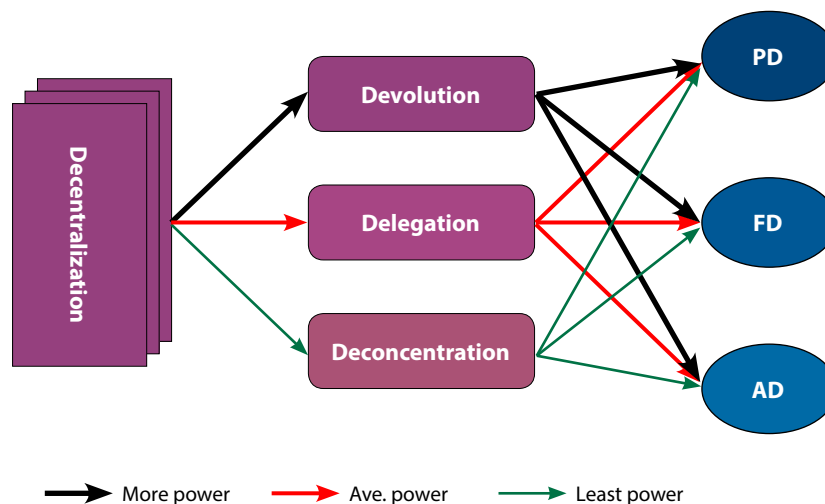
Informed by the above challenge, many countries have implemented administrative decentralization to address critical government functions such as: improving governance, equity, increasing accountability and transparency, and provision of public goods and services (Cohen and Peterson, 1997; Smoke, 2003). According to Khan and others

(2014, p1) “decentralization is meant to improve public services”.

In the area of fiscal decentralization, several studies show that there is a significant increase in investments in education, housing, sanitation, urban transport, rural agriculture, health, nutrition, agriculture and water services when these services are decentralized (Faguet, 2004; Arze del Granado, Martínez-Vázquez and McNab, 2005; Shelton, 2007). In practice, resources follow functions, and empirical evidence suggests decentralization may generate economic efficiency in the public sector, particularly when preferences are heterogeneous enough across jurisdictions and local public officials respond to local demands. Some scholars suggest decentralization forces local officials to align public planning to the choices and preferences of local citizens (Besley and Coate, 1999).

In order to shed more light on the major forms of decentralization – devolution, delegation and de-concentration - it is important to examine the relative power transferred in each form. This involves measuring the power paths. The result is a continuum of political decentralization, fiscal decentralization, and administrative decentralization whereby devolution emerges to be the most far-reaching and consequential form of decentralization, as depicted in Figure 11 below.

**Figure 11: Decentralization power paths by form of decentralization**



Source: Authors' own modelling.

Key: PD-political decentralization; FD-financial decentralization; AD-administrative decentralization.

Despite the promises that decentralization will bring efficient and effective public services closer to the people, there is ample literature that suggests several bottlenecks and challenges. These include undefined intergovernmental systems, inadequate coordination mechanisms and inappropriate “strategy for implementing decentralization” (Smoke, 2003, p13). It is further argued that decentralization may not necessarily cure all public-service delivery problems unless decentralized units have requisite institutional and managerial competencies. Other scholars suggest that decentralization may lead to duplication, wastage, intergovernmental conflicts, fiscal and economic imbalances resulting from ballooning wage bills, fiscal and monetary indiscipline, and inefficient and ineffective utilization of resources (Tanzi, 1996; Prud’homme, 1995). In other cases, decentralized units may be overwhelmed by increasing local demands and local elite capture. In addition, decentralization in many countries is driven largely by political imperatives to consolidate the ruling party’s hold, as seen in Ghana, Nigeria, Uganda, Cote d’Ivoire, Kenya, the United Republic of Tanzania and Zimbabwe (Cabral, 2011).

Similarly, Oates (1985) argued that greater decentralization results in the loss of econo-

mies of scale and may increase administrative costs and the size of government. The other enduring challenge is whether the decentralized civil service possesses the skill and capacity to provide effective and efficient public services (Gayle, 2010). It is necessary to develop and train skilled personnel through quality education to bring about a competent public-service system. The literacy levels within Eastern Africa provide an insight into the region’s skilled personnel potential (see Table 8).

Insufficient education services in Eastern Africa remains a real challenge, as depicted in Table 8 below. The data reveals that the literacy level for those aged over 15 years is below 80 per cent for most countries. The exceptions to this rule are Seychelles (91.8 per cent), Mauritius (89.2 per cent) and Burundi (86.9 per cent). Literacy levels are especially low for women, who are the majority of the population and are involved in agriculture, which is a key sector for structural transformation. For countries to transform structurally, the uplifting of women and girls through increased education opportunities is critical. Although there has been some progress in the standards of education across the board, female access to education remains limited, except in Seychelles.

**Table 8: Basic education indicators in Eastern Africa region**

COUNTRY	Estimated adult literacy rates, 2006-2012 (%)		
	(people over 15)		
	Total	Male	Female
<b>Burundi</b>	86.9	88.8	84.6
<b>Comoros</b>	75.9	80.7	71.2
<b>DRC</b>	61.2	76.9	46.1
<b>Djibouti</b>	...	...	...
<b>Eritrea</b>	70.5	80.1	61.3
<b>Ethiopia</b>	39.0	49.1	28.9
<b>Kenya</b>	72.2	78.1	66.9
<b>Madagascar</b>	64.5	67.4	61.6
<b>Rwanda</b>	65.9	71.1	61.5
<b>Seychelles</b>	91.8	91.4	92.3
<b>Somalia</b>	...	...	...
<b>South Sudan</b>	...	...	...
<b>Tanzania</b>	67.8	75.5	60.8
<b>Uganda</b>	73.2	82.6	64.6
<b>Africa</b>	62.0	70.7	53.6

Source: AfDB Statistics Department; UNESCO Institute for Statistics database (Dec 2014) and national Government figures

**Table 9: Access to services (electricity, water supply and sanitation)**

COUNTRY	Access to electricity		Water supply coverage			Sanitation coverage		
	Electricity consumption		Total %	Urban%	Rural %	Total %	Urban %	Rural%
	(KWh - millions)							
	2006	2011	2012	2012	2012	2012	2012	2012
Burundi	148	234	75	92	73	47	43	48
Comoros	49	41	...	...	97	...	...	...
DRC	6,219	7,740	46	79	29	31	29	33
Djibouti	306	381	92	100	65	61	73	22
Eritrea	252	321	...	...	...	...	...	4
Ethiopia	2,894	4,558	52	97	42	24	27	23
Kenya	7,270	7,786	62	82	55	30	31	29
Madagascar	1,139	1,417	50	78	35	14	19	11
Rwanda	215	395	71	81	68	64	61	64
Seychelles	243	317	96	96	96	97	97	97
Somalia	300	330	...	...	...	...	...	...
South Sudan	...	...	57	63	55	9	16	7
Tanzania	3,616	5,354	53	78	44	12	25	7
Uganda	1,619	2,526	75	95	71	34	33	34
Mauritius*	2,308	2,686	100	100	100	91	92	90
Africa	569,510	671,344	67	85	56	39	52	30

\*: Mauritius was included for comparison.

Source: AfDB Africa Economic Outlook (Electricity: United Nations Statistics Division, Energy Statistics Database—online database; Water: WHO/UNICEF Joint Monitoring Programme (JMP) for Water Supply and Sanitation 2013 Update Domestic Authorities).

There is need to increase access to education across Eastern Africa in order to generate a skilled population that will promote structural transformation of the region. Although the regional average literacy level of about 74 per cent is above the Africa's figure of 53 per cent, Ethiopia is an outlier on the lower end with overall literacy rates of 39 per cent and it also has a significant gender imbalance: the literacy rate for men is 49.1 per cent while that for women is 28.9 per cent.

Another key indicator of effective public service is the availability of utilities such as electricity, water and sanitation, as displayed in Table 9 above.

The data on access to electricity as well as water supply and sanitation coverage shows that the region lags behind in these respects. This does not bode well for the productivity and general health of the population as many Africans die of highly preventable waterborne diseases such as typhoid, dysentery and cholera. In addition, the lack of proper sanitation contributes to water pollution

and unhealthy living environments. As in the rest of the developing world, open defecation remains a health challenge.

This leads to the issue of health, which is an important indicator of social services and impacts the wellness of individuals and a society. Table 10 illustrates basic health statistical indicators that include life expectancy, food availability, health expenditure and number of health personnel. The tabulated data indicates that Eastern Africa, like the rest of Africa, is not doing well in this respect with an average life expectancy at birth of 60 years, ranging from 54.5 years in Burundi to 74.2 years in Seychelles.

Life expectancy at birth has a computed regional average of 60 years. Although this is higher than the Africa average of 58 years, it is far below global life expectancy. Also, the number of physicians per 100,000 people is significantly low, ranging from 1 in the United Republic of Tanzania to Rwanda and Seychelles with 192 and 440 respectively, giving



**Table 10: Basic health indicators in Eastern Africa\***

COUNTRY	Life expectancy at birth (years)		Food availability (Kcal/person/day)	Total health expenditure		Survey year	Health personnel (per 100,000)	
	With AIDS			as % of GDP	Private (%)		Nurses and midwives	Physicians
	2014	2010-2015	2011	2012				
Burundi	54.5	51.1	...	8.1	40.5	2004	19	11
Comoros	61.1	...	...	4.5	44.1	2004	94	55
DRC.	50.3	48.9	...	5.6	48.7	2007	52	42
Djibouti	62.3	58.5	2,526	8.8	40.3	2006	81	22
Eritrea	63.4	62.2	...	2.6	52.5	2007	49	2
Ethiopia	64.2	60.0	2,105	3.8	51.6	2008	25	78
Kenya	62.2	58.0	2,189	4.7	61.9	2011	107	15
Madagascar	65.2	...	2,092	4.1	39.3	2007	30	17
Rwanda	64.5	55.8	2,148	10.7	42.7	2009	686	192
Seychelles	74.2	...	2,426	3.4	91.9	2004	769	440
Somalia	55.4	...	1,696	...	...	2006	11	4
South Sudan	55.9	...	...	2.6	61.3	...	...	...
Tanzania	62.1	59.3	2,167	7.0	60.7	2006	24	1
Uganda	59.7	54.7	2,279	8.0	76.1	2005	132	12

**Sources:** AfDB Statistics Department, Life expectancy at birth and HIV/AIDS: United Nations, Department of Economic and Social Affairs, Population Division, World Population Prospects, 2012 Revision.

Undernourishment prevalence and food availability: FAO, Food Insecurity Online Database.

Total health expenditure and public health expenditure: WHO Online Database.

\* <http://www.africaneconomicoutlook.org/en/statistics/table-16-basic-health-indicators/>.

a regional average of 63 physicians per 100,000 people, compared to Mauritius where there are 418 physicians per 100,000 people. Reasons for these outcomes include low expenditures on health and other factors that compromise access and quality of health care such as affordability. In addition, as mentioned earlier, corruption, poor governance and lack of ethics deprive citizens of basic services such as rural access roads, habitable public housing, basic health and education, maternal and infant nutrition programmes, access to clean and safe water, and many other in-demand public goods. Decentralization and increased citizen participation may open opportunities for improved access to good quality basic services.

Reflecting on the foregoing, Brosio (2000, p28) observes that “given the low levels of access to education which translate into low skill capacity levels in Africa is the danger of overburdening ill-functioning decentralized institutions”. This clearly demonstrates a need to attend to the question of capacity-building of the requisite personnel to support decentralization.

More worryingly, decentralization in much of Africa has essentially been used to consolidate alliances with local elites and thereby reinforce central power, rather than to pursue pro-poor policies. Institutional weaknesses and fiscal constraints have also limited the success of decentralization in Africa. Institutional weaknesses and fiscal constraints have also limited the success of decentralization in Africa (Cabral, 2011, p2).

### C. Objectives of decentralization in Eastern Africa

Ethiopia, Kenya, Rwanda and Uganda, in common with most member States in the Eastern Africa bloc, have been reforming their economies in the 2000s. In this respect the countries established institutional frameworks to ensure that decentralization succeeds. Every country’s political and social system has affected its decentralization efforts. It is therefore important to understand the extent and nature of decentralization in each of these countries, especially in regard to: national Government or State control of decentralized units; the question of whether politicians and bureaucrats are independent of one another; fiscal

decentralization; and whether citizens and other stakeholders in decentralized units have risen to the challenge of participating in decision-making. It is also important to understand the level of trust among the populace, as opposed to forced trust.

Drawing supported conclusions on the linkage between decentralization and delivery of public

services within the framework of structural transformation requires clarification about the objectives of decentralization in the selected study countries. The objectives of decentralization in these countries are provided below to provide linkages to participatory service delivery and structural transformation.

### **1. Objectives of decentralization in Ethiopia**

1. Achieve regional and local economic growth
2. Redress development inequities between regions and achieve spatial equity
3. Promote civil or political stability through increased participation of the local community in development.

### **2. Objectives of decentralization (devolution) in Kenya**

1. Promote democratic and accountable exercise of power
2. Foster national unity by recognizing diversity
3. Give powers of self-governance to the people and enhance the participation of the people in the exercise of the powers of the State and in making decisions affecting them
4. Recognize the right of communities to manage their own affairs and to further their development; protect and promote the interests and rights of minorities and marginalized communities
5. Promote social and economic development and the provision of proximate, easily accessible services throughout Kenya
6. Ensure equitable sharing of national and local resources throughout Kenya
7. Facilitate the decentralization of State organs, their functions and services, from the capital of Kenya
8. Enhance checks and balances and the separation of powers.

*Source: Constitution of Kenya 2010, Article 174.*

### **3. Objectives of decentralization in Rwanda**

1. Enable and reactivate local people to participate in initiating, making, implementing and monitoring decisions and plans that concern them, taking into consideration their local needs, priorities, capacities and resources by transferring power, authority and resources from central to local government and lower levels
2. Strengthen accountability and transparency in Rwanda by making local leaders directly accountable to the communities they serve and by establishing a clear linkage between the taxes they pay and the services that are financed by these taxes
3. Enhance the sensitivity and responsiveness of public administration to the local environment by placing the planning, financing, management and control of service provision at the point where services are provided and by enabling local leadership to develop organization structures and capacities that take into consideration the local environment and needs
4. Develop sustainable economic planning and management capacity at local levels that will serve as the driving motor for planning, mobilizing and implementing social, political and economic development to alleviate poverty
5. Enhance effectiveness and efficiency in the planning, monitoring and delivery of services by reducing the burden from central government officials who are distanced from the point where needs are felt and services delivered

*Source: Cheema and Rondinelli (2007, pp78-80).*

### **4. Objectives of decentralization in Uganda**

1. Transfer of real power to local governments with the aim of reducing the work load on remote and under-resourced central Government officials
2. Bring political and administrative control over services at the point where they are actually delivered, thereby improving accountability and effectiveness, and promoting people's feelings of ownership of programmes and projects executed by their local governments
3. Free local managers from central constraints and enable them to develop effective and sustainable organizational structures tailored to local circumstances with a long-term perspective
4. Improve financial accountability and responsibility for establishing a clear link between the payment of taxes and the provision of services they finance
5. Improve the capacity of local authorities to plan, finance and manage the delivery of services to users

## D. Distribution of functions and institutions between various levels of Government

It has been established, in Section C above, that the objectives of decentralization in the selected countries display a strategic focus on service-delivery and citizen-participation. This section builds on these findings to plot the distribution of functions and responsibilities between the different levels of government at the point of service delivery. Also, in order to explore the role of decentralized service delivery in bringing about structural transformation in Eastern Africa, it is important to catalogue the distribution of functions between the various levels of government and examine whether there are salient lessons across the board. This permits an understanding as to whether there exist clear legal frameworks on the distribution of functions and responsibilities

between the national Government and the subnational entities.

The literature on decentralization and public-service delivery clearly indicates that the decentralization movements across the world have focused primarily on improving the delivery of public service (Smoke, 2003; Steiner, 2006; Cheema and Rondinelli, 2007; Osei-Kufuor and Bakare, 2013). Furthermore, the provision of public service requires clear legal and constitutional mandates on who is responsible for what, at what stage, under what conditions, and how delivery of that service is accessed.

There is ample documentary evidence on the distribution of functions and responsibilities in Ethiopia, Kenya, Rwanda and Uganda. As outlined in Tables 11-14, there are constitutional and legal stipulations on the roles, responsibilities,

**Table 11: Distribution of functions in Ethiopia**

National Government	Local governments
<ul style="list-style-type: none"> <li>National Government is defence, foreign affairs, economic policy, citizenship, declaration of state of emergency, deployment of army, printing currency, establishing and administering major development establishments and communication networks</li> </ul>	<ul style="list-style-type: none"> <li>Regional governments roles are to establish regional administration on the basis of self-determination and establish a democratic system</li> <li>Formulate and execute the regional constitution</li> <li>Formulate and execute the economic and social development policies and strategies</li> <li>Administer land and natural resources on the basis of the federal law</li> <li>Determine taxes and collect revenue from regional sources</li> <li>Formulate and execute laws concerning administration by civil servants and work conditions in the region</li> <li>Maintain peace and order in the region and establish regional police forces</li> </ul>

Source: Egziabher, 1998, p38.

**Table 12: Distribution of functions in Kenya**

National Government	Local governments
<ul style="list-style-type: none"> <li>35 functions, key are: defence, security, immigration, foreign affairs, police, courts, national economic policy, national guidelines or policy for health, agriculture, veterinary, energy, public investment, tourism, and capacity-building</li> </ul>	<ul style="list-style-type: none"> <li>14 functions:</li> <li>county health services</li> <li>agriculture</li> <li>pollution control</li> <li>cultural activities</li> <li>county transport</li> <li>trade</li> <li>pre-primary education</li> <li>county public works</li> <li>county planning</li> <li>fire services</li> <li>control of drugs and pornography</li> <li>county public participation</li> </ul>

Source: Fourth Schedule of Constitution of Kenya, 2010.

**Table 13: Distribution of functions in Rwanda**

National Government	Local governments
<ul style="list-style-type: none"> <li>• Presidency and Cabinet affairs</li> <li>• Policy formulation and coordination</li> <li>• Environment and land issues</li> <li>• Foreign affairs</li> <li>• Finance and economic planning</li> <li>• Judicial</li> <li>• Legislature</li> <li>• Defence</li> <li>• Security</li> <li>• Spatial planning and physical infrastructure</li> <li>• Trade and investment</li> </ul>	<ul style="list-style-type: none"> <li>• Territorial administration</li> <li>• Immigration services</li> <li>• Agriculture</li> <li>• Health</li> <li>• Education</li> <li>• Water and environment</li> <li>• Community development and social affairs</li> </ul>

Source: Republic of Rwanda (2004)

**Table 14: Distribution of functions in Uganda**

National Government	Local governments
<ul style="list-style-type: none"> <li>• Defence</li> <li>• Security</li> <li>• Foreign relations</li> <li>• National guidelines for sectoral policymaking,</li> </ul>	<ul style="list-style-type: none"> <li>• Local public goods and services</li> <li>• Manage facilities</li> <li>• Education services, except tertiary education</li> <li>• All health services, except referral hospitals</li> <li>• Water services</li> <li>•</li> <li>• Urban councils are in charge of: <ul style="list-style-type: none"> <li>• Street lighting</li> <li>• Ambulance and fire brigade services</li> <li>•</li> </ul> </li> <li>• Lower local government councils are in charge of: <ul style="list-style-type: none"> <li>• Provision of nursery and primary education</li> <li>• Agricultural ancillary field services and the control of soil erosion.</li> </ul> </li> </ul>

Source: Steiner, 2006, p8.

functions and service delivery across the region. Many of the countries within the region have clear constitutional and legal charters mandating decentralization. Ethiopia, Kenya and Uganda have constitutions that mandate decentralization.

Before the adoption of the Constitution of Kenya in 2010, the 1963 constitution provided that the staff of the local governments were also employees of the central Government through the Ministry of Local Government. By extension they often advanced the interests and programmes of the central Government, as opposed to the preferences and welfare of local residents. However, the adoption of devolution has ushered in “democratic values such as accountability, transparency, representation and diversity” in Kenya. The civil service at the county level is accountable to the ordinary citizens (Kobia and Bagaka, 2014, p18). The Constitution of Kenya 2010 consequentially enacted devolution and outlined in the Fourth

Schedule the distribution of functions between the national Government and the 47 county governments.

In Rwanda, decentralization is designed to “enhance effectiveness and efficiency in the planning, monitoring, and delivery of services by promoting joint development planning between central and local governments” (Republic of Rwanda, 2012 p9). Writing on Uganda, Steiner (2006, p9) observes that decentralization was “originally established for political reasons and not with the aim of improving service delivery or reducing poverty”. This position is however not supported by the findings in the current report, and especially the objectives outlined in page 46.

In view of the foregoing, it is necessary to probe whether and how decentralization of service delivery has impacted structural transformation within Eastern Africa. Clearly and without doubt,

decentralization has altered and transformed public administration in Eastern Africa.

At the functional level, the initial qualitative evidence from Ethiopia, Kenya, Rwanda and Uganda underscores that change has occurred when one looks at who is the mandated public service provider. For example, in Kenya, from the 1960s and onwards, the central Government was the sole provider of public services. Its bureaucracy operated from the office of the President or Prime Minister in the capital city all the way to the lowest administrative unit. As Kobia and Bagaka (2014, p17) observe:

“The devolution experiment in Kenya has brought with it some renewed energy in the management of public affairs. Powers that were originally centralized in one arm of the government have been dispersed to other levels of government and even within arms of the same government these powers have further been dispersed. This dispersal of powers has greatly enhanced the system of checks and balances, and promises to foster democracy in the management of public affairs”.

## **E. Has decentralization improved public service delivery in Eastern Africa?**

The test of success of any decentralization effort in regards to public-service delivery is to show that the provision of that service has improved using a baseline of the previous level of satisfaction or supply. Unfortunately, due to the lack of quality data and of clear monitoring and evaluation systems, it is not easy to establish whether public-service delivery has improved. A look at the prevailing literature suggests that many decentralization enthusiasts were disappointed throughout the 1980s and 1990s as decentralization did not lead to better public service (Rondinelli, Nellis and Cheema, 1983). As Khan and others (2014) posit, there have been very few studies that have irrefutably proven a positive correlation between decentralization and improved delivery of public services. Although, a few studies (Piriou-Sall, 1998; Manor, 1999; Smoke, 2001) have suggested such

a positive link; the quality of evidence and the methodology employed have come under attack (Tanzi, 2001; Conyers, 2007; Khan and others, 2014).

As noted by Dabla-Norris (2006), the challenges arising from decentralization are monumental. Unless there are strong institutional frameworks, impressive returns from economic development, prudent economic and political reforms, upgraded technical and administrative capacities and favourable macroeconomic, demographic and geographic conditions, and sound intergovernmental relations, decentralization may not necessarily bear fruit.

In general, institutional reforms that minimize adverse incentives and promote transparency, predictability and accountability are key to an effective decentralized system. However, in the absence of strong institutional capacity and firm and transparent rules that regulate intergovernmental relations, it can pose a formidable challenge (Dabla-Norris, 2006, p130) to force subnational governments to provide an adequate level of services and maintain a sustainable decentralized system.

The answer to the research question posed previously - whether decentralization has improved public-service delivery in eastern Africa - is mixed. For example, decentralization in Ethiopia has led to an increase in the range and level of services delivered to the citizens. Accordingly, “decentralization improved net enrolments in education, access to basic services in health such as antenatal care, contraception, vaccination rates, and deliveries by skilled birth attendants, and contributed to greater agricultural productivity in cereals, vegetables, coffee and fruits” (Khan and others, 2014, p1).

Decentralization in Ethiopia has led to marked improvement and an increase in the range and level of service delivery to the citizens through the zones, *woredas* and *kebeles*.

In Uganda, Brosio (2000, p22) writes that empirical evidence suggests difficulties “of financing impor-

### Box 1: The story of Ethiopia

“Ethiopia has achieved impressive development results in recent years. That progress includes rapid and significant improvements in basic service delivery indicators. An Overseas Development Institute study (2010) noted that Ethiopia is making the third-fastest improvements of any country towards reaching the Millennium Development Goals (MDGs). The latest Ethiopia Demographic and Health Survey data show that child mortality rates have fallen from 123 per thousand in 2005 to 88 in 2010, and primary net enrolment rates rose from 68 per cent in 2004/2005 to 82 per cent in 2009/2010. Such progress on basic service delivery is coupled with an impressive growth record over the past decade. GDP grew on average by 11 per cent per year during 2004/2005-2009/2010, according to official estimates. Initially led by agriculture, growth has become more broad-based, with a rising contribution from the mining, services and manufacturing sectors” (Khan and others, 2014, p4).

tant subnational expenditure responsibilities in a non-federal setting”. Furthermore, the monitoring and evaluation system is unstructured and the major challenge in decentralization is that key political decisions emanate from the top party organs of the National Resistance Movement (NRM). Besides, the decentralization units were

politically established and the districts created for political interests rather than service delivery. They generally lack the financial and technical resources to sustain themselves and deliver effective public services. Indeed, inadequate financing of subnational governments renders quality service provision impossible in Ethiopia, Kenya, Rwanda

**Table 15: Challenges faced in decentralization and service delivery**

<p><b>Ethiopia</b></p> <ol style="list-style-type: none"> <li>1. Democracy is still young; politics has a lot of influence on the functions of government, with a tendency for the centre not to let go</li> <li>2. The collection of taxes is weak and focuses mainly on the formal sector. This is partly because of low incomes; a large informal sector and the fact that taxation requires services and representation. Except for Addis Ababa and Dire Dawa, the central Government collects most of the taxes</li> <li>3. In addition, review of the responsibilities and resources of the regions indicate that the responsibilities are far in excess of the revenue that can be generated from the identified sources. This makes the regions heavily dependent on federal resources and therefore limits the gains of decentralization. Central Government provides up to 80 to 90 per cent of the budget of regions through grants</li> </ol>	<p><b>Kenya</b></p> <ol style="list-style-type: none"> <li>1. The costing and unbundling of functions and responsibilities is not yet complete</li> <li>2. Conflicts and intergovernmental strife between national Government and county governments</li> <li>3. Duplication of functions, as national line ministries continue to retain devolved functions</li> <li>4. Overreliance on national revenues by devolved units</li> <li>5. Huge wage bill at both national and county governments consuming much of the budget, leaving little for service provision and development</li> <li>6. Weak capacity at devolved units</li> <li>7. Lack of a clear monitoring and evaluation framework</li> </ol>
<p><b>Rwanda</b></p> <ol style="list-style-type: none"> <li>1. Capacity problems including lack of skilled staff</li> <li>2. Number of staff inadequate due to budget limitations</li> </ol>	<p><b>Uganda</b></p> <ol style="list-style-type: none"> <li>1. Policy conflicts between the central Government and local government</li> <li>2. Unwillingness of central government line ministries to relinquish certain services to local government</li> <li>3. Uganda lacks an elaborate decentralization reform agenda – most recent reforms have been reactive and piecemeal</li> <li>4. Over-reliance on central Government transfers has eroded autonomy</li> <li>5. Increased administrative cost due to politically created districts</li> <li>6. Donor funding channeled through sector initiatives, thereby by-passing local government</li> <li>7. Democracy is not fully entrenched - politics has substantial influence on the functions of government, with a tendency for the centre not to let go</li> <li>8. Lack of a clear monitoring and evaluation framework</li> </ol>

Source: Field interview information/responses.

and Uganda. A snap shot of the problems faced in decentralizing service delivery is presented in Table 15. This summary was compiled from the field visits made to selected countries in Eastern Africa for this study.

## **F. Challenges faced in service delivery within decentralization**

The evidence from field missions, as tabulated in table 15, shows that the regional governments in the countries visited have serious constraints including; lack of adequate financial and human resources to effectively carry out the management of decentralized administration and development. To address this challenge, efforts should be made to build the capacity of lower administrative units to enable them to cater to the needs of people at grass-root level.

Finally, to further examine the question of improved public service, there is also need for a well-informed civil society and public that will demand better services. As proposed by Osei-Kufuor and Bakare (2013), the newly decentralized units need effective capacity-building in order to meet the new demands.

## **G. An informed civil society and public that will demand better service**

In order for decentralization and local government reforms to provide quality service, the public should be empowered to know firstly who is responsible for providing the service and secondly what level of service should be provided. Increasingly, anecdotal evidence in Kenya suggests that the public is not aware of who is responsible for providing certain services. Clearly, few Kenyans are aware of the distribution of functions and responsibilities as itemized in the Fourth Schedule of the Constitution.

In Ethiopia, as discussed in chapter III, the participation of civil society in decisions and policy is limited due to lack of a clear feedback mechanism between citizens and government within the decentralization framework.

On the other hand, in Rwanda there are effective mechanisms for the citizens and civil society to give input regarding service provision through the various levels of dialogue. First, all citizens older than 18 years are members of local government cells, where they can give input about services in their locations. Second, citizens are represented on all the other levels of governance (sector, district or city). Finally, citizens can call in through the National Dialogue Council and demand accountability of their leaders and certain services.

These findings closely mirror the conclusions from recent case studies in Africa (Ghana, Uganda, Malawi and the United Republic of Tanzania) in the volume edited by Crawford and Hartmann (2008). The study results were that decentralization can lead to better service delivery and an improvement in the socioeconomic conditions of the population in the rural areas if it is implemented effectively. However, the same studies reported that if decentralization is misconceived or implementation is half-hearted it may lead to more frustration than a straightforward centralist policy and, in turn, may fail to uplift the people's social and economic situation.

## **H. Conclusion**

The quest for decentralization remains vivid in Eastern Africa. The reasons behind the decentralization agenda have stretched increasingly from being driven by political interests to seeking to improve governance and public-service delivery. This study has shown that constitutional and legal frameworks and mechanisms exist for the distribution of functions and responsibilities between the different levels of government. This has altered the point of service delivery and thus restructured the governance and administrative systems. However, there remain great challenges to the effective delivery of service, as outlined in table 15 above on the challenges facing decentralization. The most pressing and common challenge that was observed is that there is shortage of skilled personnel to support decentralization. This calls for serious efforts to build the capacity of decentralized units in providing public service.

## I. Key messages

- a) Rules and systems are fragmented and capacity and resources are limited for effective public-service delivery in Eastern Africa. The benefits of decentralization may not be realized without well-functioning systems
- b) There is weak accountability and transparency in subnational government units. Effective sub-government from a pluralistic sense assumes the existence of a highly liberal democratic State that is transparent and accountable
- c) Although a majority of civil society organizations are vibrant, their activities remain suspect within government corridors and at the same time State agencies have used cooption to weaken civil society organizations
- d) There is generally no concrete comparative empirical data on public-service delivery in Eastern Africa. No one country can truly tell its state of affairs
- e) As argued by Odusola (2014), the impressive economic growth from countries such as Rwanda and Ethiopia over the past decade or so is not from the modern, tradable industries that could energize domestic productivity growth, but was powered by non-tradable services and public investment in construction. The productivity dynamism needed to spur structural transformation could not be ignited because of the absence of a modern industrial sector in most African countries. Over the past decade, continued economic expansion has raised unnecessary expectations in many countries but failed to generate the high-quality jobs needed to employ growing numbers of young people productively (Odusola, 2014, p10).

## J. Recommendations

- a) Train citizens and government officials in how to assess and deliver effective public service
- b) In some areas, it may be necessary to provide incentives to high-performing units such as performance grants as champions of effective service delivery
- c) There is need for programmes to develop skilled manpower to enhance the managerial and technical competencies of public-service employees to provide effective and efficient public service at all decentralized units
- d) In places where setting targets and formation of the decentralized units is not meeting the objectives of decentralization, it is necessary to re-align the institutional, technical and financial systems to the stated objectives of decentralization in each country
- e) Develop functional monitoring and evaluation mechanisms
- f) Ensure that service delivery responsibilities and corresponding public expenditure and costing of functions are undertaken at all levels.

Effective service delivery within decentralization requires quality policies and institutions that can spur economic growth in the regions. The next chapter presents an analysis of the quality of policy, institutions and economic performance in the Eastern Africa region.



# Chapter V

## The quality of policy, institutions and economic performance

### A. Introduction

The pursuit of higher economic performance is undeniably an overarching policy agenda for many governments, largely because citizens with higher incomes can access a wider choice of goods and services. It is also widely acknowledged that “public policy has the potential to dramatically improve people’s lives and to achieve multiple social, economic, and political objectives” (Morse and Struyk, 2006, p3). For this reason, many countries in Africa, including those in the Eastern Africa region, have adopted a variety of policy frameworks in an effort to improve the welfare of their citizens. The post-independence era of the 1960s and 1970s was characterized by import-substitution strategies. In the 1980s and 1990s the mantra was structural adjustment programmes (SAPs) driven by the International Monetary Fund (IMF) and bringing attendant liberalization and economic reforms. In the globalized and liberalized twenty-first century, the agenda of structural transformation has acquired prominence as a potential pathway to higher growth and sustainable development.

Furthermore, in the structural transformation agenda, decentralization<sup>8</sup> and institutional reforms are increasingly themed on improved service delivery and social transformation. These transmission channels are expected to improve the pace, quality and sustainability of the economic growth process with the attendant benefits of reducing poverty, tackling growing inequalities, generating decent jobs and easing demographic pressures. Through a backward feedback mechanism, improved service delivery and social trans-

formation are expected to support stronger and higher-quality institutions that can make and implement sound decisions to foster equitable and efficient management of resources.

Within the context of Eastern Africa, this chapter examines the linkages between structural transformation and policy design, decentralization and institutional quality. The indicators of structural transformation that are examined include: per capita income, growth, size and composition of economic output.

### B. Quality of policy design in Eastern Africa

It can be argued that one of the fundamental functions of government is policy design to support the delivery of services. It entails a clear understanding of the context within which the guiding principle is made, considers the targets to be achieved, and requires that the concept is fleshed out and understood by the policy sponsors, implementers, beneficiaries and various stakeholders. This role yields public policies that are, in effect, efforts by governments to change aspects of their own or social behaviour in order to carry out some end or purpose and are comprised of complex arrangements of policy goals and policy means.

Since the era of the structural adjustment programmes in the 1980s and 1990s, Africa including Eastern Africa has witnessed a variety of political, constitutional and socioeconomic reforms. The end of the Cold War and the opening of the region to the world compelled governments to design policies that are aligned with international global requirements and demands. Some cases in point are, for instance, poverty-reduction strategies and the Sustainable Development Goals (SDGs) that came hot on the heels of the Millennium Devel-

<sup>8</sup> International Council on Human Rights Policy (2005, p11) observes that the current popularity of decentralization, especially in the developing world, is unparalleled, with 80 per cent of all developing and transition countries undertaking some form of decentralization over the past two decades.

opment Goals (MDGs). The trend towards open government has also presented a new paradigm in policy design on account of wide availability of data.

Adachi (2011, p64) explains:

“As is well known, public policy design is no longer the sole province of governments, which have the responsibility of formulating and preparing policy drafts and implementing and managing policies approved by parliament. Today, political parties, think tanks, industrial organizations, citizen groups, non-profit and non-government organizations, journalists, policy scholars, and diverse other actors are also involved in public policy design and serve as policy advocates”.

Mbaku (1997, p32) writes “pre-arranged reforms such as those provided by the IMF and World Bank and other international organizations are not likely to be effective” and advocates the use of home-country experts and a public-private partnership approach to policy design. The attraction of external experts and expertise to policymakers is that they bring in scientific knowledge that ought to yield positive results because it facilitates informed policymaking.

In the recent past, scholars and policymakers have tended to prefer market-based policy instruments, because they are, at least theoretically, more effective and efficient than “command and control” instruments. Recent economic reforms such as liberalization are part of this trend. Further attempts to improve the policymaking field has also seen scholars on policy design start looking into the complex behavioural and bidirectional relation between trust, informal institutions and public policies. They argue that effectiveness in implementation of public policies depends on the level of social and institutional trust and on the ways in which “informal institutions” (North, 1991) are developed and run.

Some of the key policies that have been designed in the region include regional integration which

has significant political, economic and social implications, as Muhinda and Bizoza (2013) explain:

“The Treaty for establishment the East African Community was signed on 30 November 1999 and entered into force on 7 July 2000 following its ratification by the original three partner States – Kenya, the United Republic of Tanzania and Uganda. Rwanda and Burundi, the two tiny landlocked East African countries, joined the EAC on 1 July 2007. The five countries agreed to cooperate at the subregional and regional levels in all fields of human endeavours to raise the standards of living of East African peoples. To this extent, the EAC countries established a Customs Union in 2005 and a Common Market in 2010. The regional integration process is at a high pitch at the moment. The next phase of the integration will see the bloc enter into a Monetary Union and ultimately become a Political Federation of the East African States”.

Other major policies are various transformational long-term development strategies such as Rwanda’s Vision 2020, the united Republic of Tanzania’s Vision 2025, Kenya’s Vision 2030 and Uganda’s Vision 2040. It is instructive that the various governments have played a leading role in initiating and coordinating the drafting of these comprehensive statements of long-term development policy. The clear policy direction that these visions have bestowed on the respective countries has redefined the developmental role of the State. These engagements enable the State to play a critical role in supporting the process of structural change.

In addition, most countries in the region have also focused on achieving food sufficiency through increased investment in agriculture as well as growing exports and maintaining macroeconomic stability. These policy directions are motivated by the fact that agriculture is the single largest productive sector in most of the countries and therefore an obvious starting point for meaningful economic growth and structural transformation. Whilst export earnings are necessary to gener-

ate foreign currency to support imports, a stable macroeconomic environment is indispensable in the quest to attract investments and position the private sector as the engine of growth.

As discussed widely in this report, decentralization has also been a flagship policy reform in the region. In the selected countries, relevant legislation was passed to effect this major political reform in the recent past: Ethiopia (1992), Uganda (1995), Rwanda (2000) and Kenya (2010).

The periodicity of policy designs in Eastern Africa can be generalized into three broad episodes. First the post-independence development planning era of 1960-1979 was characterized by centralized control and capacity deficiency in most institutions of governance (legislature, executive and judiciary). In the second phase (1980-1999), the resulting development failure emboldened international financial institutions to drive the policy, and economic liberalization and deregulation were the main theme in the structural adjustment programmes. The policy space in the third phase (starting from 2000) was informed by the World Bank poverty-reduction strategies and need to achieve the Millennium Development Goals, among other targets. To a large extent, the adoption of market-oriented policies has seen a reduction of government in business and the granting of a more central role to the private sector as agents of production. The wider phasing shows how the transmittal mechanisms of policies in the region have been curtailed by discontinuity and hence a slowing of socioeconomic transformation and development.

Some of the salient issues in the policy space can be discerned from a brief review of Kenya's experience in policy design following the election of 47 county governments in March 2013 under the devolution process. In line with the devolution laws, each county was required to develop and implement a five-year County Integrated Development Plan (CIDP). These are strategic tools for planning and ensuring the sustainability and development of subnational governments. In addition, these plans and other sectoral plans

were a precondition for counties to access funding from the exchequer.

One of the unexpected experiences was that programme planning became a challenge in most counties, exacerbated by lack of harmonized financial templates that could provide a good learning basis for planning purposes. It also emerged that county governments had to take into account a host of other imperatives and thus play a balancing act. These considerations include global commitments such as the Sustainable Development Goals (SDGs) and the Sendai Framework of Action, as well as national priorities such as implementation of Vision 2030. It is true that development planning became more complex. However, it is envisaged that the new arrangement will promote social and economic development and ensure equitable sharing across the country. Some of the drivers of the positive impact of the new policy paradigm accrue from: the focused area-specific plans; new business opportunities at county level; and learning lessons from benchmarking the best-performing counties. The speed, quantum and expanse of positive outcomes relating to devolution can be improved through: adopting better monitoring and evaluation frameworks such as mid- and end-of-term reviews; and developing institutional, financial and human capacities.

This matches the conclusion of the Economic Commission for Africa (2015, p ix) that "...a coherent set of policies should address the three building blocks of structural transformation: human resources, infrastructure and institutions". Thus a useful test for the quality of the policy designs is the extent to which a Government has been able to influence the transformation of the economy and improve the welfare of the citizens through these new policies. This question is answered in the sections that follow below.

## **C. Institutions and decentralization in Eastern Africa**

### **1. Decentralization**

The key-informant interviews carried out in this study established that Ethiopia, Kenya, Rwanda and Uganda have endeavoured to improve the

well-being of their people through a number of national initiatives, policies and legislative frameworks. A common feature of these reforms was the development of specific instruments such as new constitutions and long-term development strategies popularly referred to as “Visions”<sup>9</sup> to anchor the development efforts. There is documented evidence of remarkable efforts to implementing these policies. In all these countries, it was noted that politics plays a major role in shaping the decentralization process as well the institutional structures and their quality. This supports a case for promoting and supporting positive politics that can facilitate and nurture decentralization initiatives in the region.

In Kenya, the commitment of the national Government and hence the political system through the ruling coalition have ensured that the decentralization provisions for devolution have been respected almost to the latter. One of the main points of contention between the national Government and devolved county governments has been how much national revenue should be availed to the decentralized units. Thus, fiscal decentralization is a major headache in Kenya’s decentralization.

An important observation in Kenya’s devolution has been issues over the authority and superiority of the National Assembly vis-à-vis the Senate. This is in spite of the constitutionally separate mandates of the two entities, so that the National Assembly deals with national legislative matters while the Senate legislates and protects the devolved government. A case in point is the law on mining that is of both a national nature (within the sphere of the National Assembly) and impacts county governments where the minerals are found and mined (within the sphere of the Senate). When such cases end up in a deadlock situation the two legislative houses have had to take recourse to the judicial arm of Government - the Supreme Court - for a final determination of the dispute.

Another arena of institutional conflict is the power of the Senate to supervise and exercise an oversight role over the devolved county governments. In deadlocked situations, the judicial arm of the

Government has also been used to provide the way forward. It is to be noted that the political system and executive play little or no role at all in resolving institutional disputes. Thus, the Kenyan case illustrates that where administrative and political decentralization has been effective, the centre cannot really interfere with the decentralized units that have produced powerful local politicians.

In the case of Uganda, it can be argued that the implementation of the decentralization policy was not implemented as envisioned. This is partly due to political interests, in that a good decentralization policy was overshadowed by the creation of additional districts that could not be funded adequately. Indeed, politics and political expediency seem to have captured the decentralization process, thereby stultifying the intended transformation.

Political science theory states that where strong political parties exist, decentralization can proceed relatively smoothly and avoid unnecessary bumpy rides. This is partly because strong political parties are able to define their agenda and marshal their members towards one course. This is corroborated by Enikolopov and Zhuravskaya (2007) in their empirical study of 75 developing and transition countries who report that the strength of national political parties significantly improves outcomes of fiscal decentralization such as economic growth, quality of government and public goods provision. An important lesson that can be learned from the Rwanda experience is that decentralized units can work well where politics do not interfere with the policy directives as contained in the legislation.

In the case of Ethiopia, a strong national Government controls the decentralization process with a consistent commitment to the policy. This is exercised through a federal system comprising nine regional states that are vested with legislative, executive and judicial power for self-administration. However, the regional governments face constraints such as lack of adequate financial and human resources to manage the decentralized units effectively and to facilitate development

9 Rwanda Vision 2020, Tanzania Vision 2025, Kenya Vision 2030 and Uganda Vision 2040.

adequately. There is clear distinction of functions between the federal Government and decentralized units, which enables harmonious coexistence.

It was noted that the comparator country, Mauritius, has achieved impressive structural transformation mainly because of consistency in its policies and the relevance of the institutional frameworks that it has established in nearly all the sectors of the economy. Central control is exercised through a political and administrative form of government where the centre retains all the power and authority over local units. While local authorities provide public utilities through the Ministry of Local Government and Outer Islands, sectoral ministries and supporting institutions provide developmental services that ensure economic growth and equity. This developmental framework is well coordinated with a strong citizens' voice that engenders accountability - an indication of how empowered citizenry can contribute to transformation efforts. Suffice to point out that these interview results are consistent with the findings in Schneider (2003) who, using a scale of 0 to 1, found that Mauritius has medium scores on political decentralization (0.65) and administrative decentralization (0.41) and very low score on fiscal decentralization (0.1).

The case studies analysed above indicate the diversity of decentralization in the Eastern Africa region with varying legal frameworks, levels of control from the centre, distinction of functions, pace of implementation and outcomes. By comparison, the island State of Mauritius, which lies outside the region, has a form of decentralization that is significantly different from the forms adopted in the region. This shows the complexity of decentralization and how it is influenced by the country context. This is consistent with the observations by Crawford and Hartmann (2008, p8) that "many studies to date, have highlighted that decentralization is complex, multi-faceted and faces many challenges, and has variable outcomes".

The challenges noted include: political will and commitment; relational issues between the national and decentralized units; and inadequa-

cies in human and financial capacities. Key pillars of decentralization that were noted include: consistent political commitment to decentralization, clear distinction of functions, and effective mechanism for citizen participation.

The foregoing suggests that decentralization has a place in the development space of the Eastern Africa region, provided it is implemented in an incremental manner and carefully. Governments can employ political, administrative and fiscal frameworks deftly to position decentralization squarely as an anchor and strategy for structural transformation. This way, decentralization would be a useful political pathway and process – among others – that can engender strong institutions, leadership and public participation, and deliver structural transformation.

## **2. Institutions**

In this discourse, a central question is whether good institutions facilitate structural transformation, as posed by Chang (2011). The researcher partly answers this question when he cites the view that "institutions are the ultimate determinants of economic performance" but he says "the causality in the opposite direction – that is from economic development to institutions – is usually neglected." Thus, it is probable that transformation may indeed lead to better institutions - a feedback mechanism. Chang further supports (2011, p476) the view that economic development transforms institutions: "First, increased wealth due to growth may create higher demands for higher-quality institutions (e.g., demands for political institutions with greater transparency and accountability). Second, greater wealth also makes better institutions more affordable. Third, economic development creates new agents of change, demanding new institutions".

As North (1991, p97) argues, institutions govern political, social and economic interaction through "informal constraints (sanctions, taboos, customs, traditions, and codes of conduct), and formal rules (constitutions, laws, property rights)". Institutions are "a set of rules that structure social interactions in particular ways" (Knight, 1994, p2) or "systems of established and prevalent social rules that struc-

ture social interactions". This position is supported by Hodgson and Knudsen (2006, p8) who opine that "by structuring, constraining, and enabling individual behaviours, institutions have the power to mould the capacities and behaviour of agents in fundamental ways: they have a capacity to change aspirations instead of merely enabling or constraining them". Thoenig (2011) emphasizes the importance of institutions and argues that they "structure the design and the content of the decisions themselves". The researcher further argues that, whether "institutions shape policies and politics," or whether it is "politics and policies" that shape institutions, there is no denying that political, economic and social institutions are the conveyor belts for collective action. These observations indicate that institutions can be critical elements in the agenda for structural transformation.

Building on the importance of institutions in development agenda, a number of scholars have delved further into the subject and pointed out that institutions are not homogenous: there is need to be specific in order to ensure that interventions are fruitful. Some of the main types include political institutions (March and Olsen, 1983), budget institutions (Padgett, 1981), legislatures (Shepsle and Weingast, 1987), local and state government institutions (Kjellberg, 2005), administrative capacity (Skowronek, 1982) and so on. Moreover, Hattam (1993) cautions that institutions vary from one country to another. This widens the spectre of institutional heterogeneity with the obvious implication that credible institutional reforms must be country-specific and sector-relevant.

There is a growing body of knowledge that institutions can play an important role in promoting equitable growth and structural transformation. Indeed, institutions are useful when designed in such a way that they encapsulate a shared vision, promote effective leadership, strengthen public-participation and build social capital. One particularly important component of institution-building is the decentralization of political systems of governance that has been witnessed in the Eastern Africa region. A major driving force

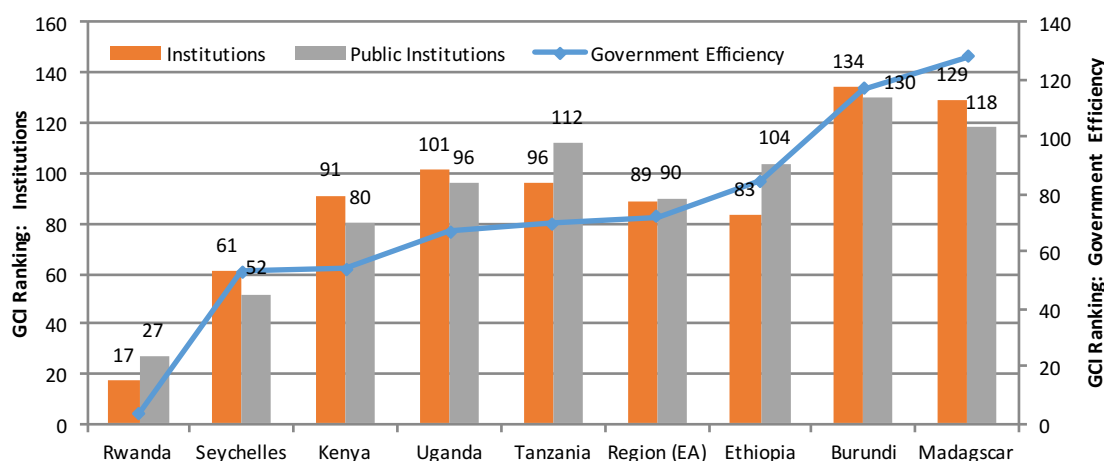
for the above initiative is the fact that strong institutions are required to empower them to make concrete interventions, leading to higher equity, enhanced social cohesion and preservation of natural resources as primary indicators of wellbeing for beneficiary populations.

However, the complexities of designing and implementing decentralization are many. They include human, technical, political and many more complexities. A case in point is the dearth of human resources with requisite skills and capacity to design and supervise policy implementation, professional organization and management of decentralized functions to avoid overlaps, conflicts and poor performance, and conflicts between national and devolved units of government as witnessed in Kenya and Uganda. Thus, identifying and giving effect to an appropriate balance in the decentralization of power between local and central institutions remains a key challenge in the Eastern Africa region.

Another challenge is policy and institutional frameworks for ensuring that fiscal harmonization and that appropriate checks and balances are in place to ensure prudent public spending. For example, in Kenya and Uganda, decentralized units have not come up with effective means of controls in regard to revenue generation and usage. In Kenya, many devolved governments collect less revenue than their pre-devolution predecessors. There are other challenges of a national concern such as the complexity of balancing decentralization with the nation-building agenda and effective balance and utilization of qualified personnel in critical areas such as health, infrastructure and tourism. In addition, the managing of ethnic and regional differences and promoting national identities and institutions require attention.

Another issue with respect to institutions in Eastern African countries such as Kenya is overemphasis on the supply side. Partly fuelled by the decentralization drive, the focus has been more on service delivery and there has been less requirement for institutions to address the demand side. A similar effort would therefore be required in establishing demand-side institutions, for instance, those that

**Figure 12: Country ranking of institutions**



Source: Data derived from Global Competitiveness Report 2014-2015.

promote credible public participation in formulating policy and decision-making.

The widely-used Global Competitiveness Report provides a useful framework that can be applied to consider the quality of Eastern African institutions and how they relate to structural transformation. The relevance of the index is found in the definition of competitiveness “as the set of institutions, policies and factors that determine the level of productivity of a country. The level of productivity, in turn, sets the level of prosperity that can be reached” (World Economic Forum, 2015, p4). A further clarification is that the productivity level also determines the rates of return in an economy, which are the fundamental drivers of its growth rates and the well-being of its citizens. Thus, a more competitive economy is likely to grow faster over time.

Rankings in the competitiveness index follow a logical order in which the most competitive economy is ranked number one while the worst is ranked last. Figure 12 uses the *Global Competitiveness Report 2014-2015* to probe into how the Eastern African region fares with respect to institutions (represented by the bars) and government efficiency, an outcome that is the subject of close scrutiny and considerable interest.

Analysis of the report reveals that, out of 144 countries, the eight Eastern African countries whose institutions were evaluated ranked on average

89/144, almost similar to an average ranking of 90/144 with respect to public institutions and a better ranking of 72/144 for government efficiency. The clear pattern that emerges of a close association between the ranking on institutions and government efficiency suggests that policies that target institutional reforms are likely to lead to improvements in the efficiency of government in service delivery and thus contribute to structural transformation.

The better ranking of government efficiency suggests that the various public-sector reforms have had positive impacts on service delivery. Within the region, Rwanda is by far the highest ranked country in all aspects of institutions and government efficiency, followed by Seychelles and Kenya. This good ranking of Rwanda was corroborated by the key-informant interviews: leaders in various institutions in Rwanda were found to be knowledgeable and focused on service delivery. Specifically, the citizen score card is an important tool to support service delivery.

Burundi, Madagascar and Ethiopia score lowest in the competitiveness ranking of institutions and government efficiency. Within the region and among the ranked economies, these three countries had the lowest per capita incomes in 2014. This may suggest a positive relationship between citizens’ incomes and the quality of institutions - the latter is likely to precede the former.

The above discussions underscore the role of institution as drivers of development through the levers of structural transformation. However, the low ranking of the region's institutions and governance suggest the need for focused reforms. It is worth noting that pursuing the agenda for further governance and institutional reform will benefit from support by the World Bank, the International Monetary Fund and donor governments who have recently employed institutional development or "governance reform" as a way of promoting economic development of developing countries (Chang, 2007).

However, care should be taken to avoid prescriptive global standard institutions or a "one size fits all" approach. In this regard, the recommendations by the Economic Commission for Africa (ECA, 2016) on institutional reforms in Africa provide a fitting solution. First, formal institutions should not be supplanted from outside because they will be dysfunctional partly due to lack of acceptance and local support. Secondly, the institutions should be endogenously developed with specific reference to the environment. Thirdly, institutional changes should be initiated and sustained by local organizations. Fourthly, institutional innovation is necessary for socially and politically sustainable development.

Finally, Chang (2007, p3) sums up: "...we are still some way away from knowing exactly which institutions in exactly which forms are necessary, or at least useful, for economic development in which contexts". Therefore, more studies are required in this field to inform development policy.

#### **D. Economic performance and structural transformation in Eastern Africa**

Empirical evidence suggests that "the structural transformation observed across countries is systematically related to the level of development: poor countries have the highest shares of hours in agriculture, while rich countries have the lowest shares" (Duarte and Restuccia, 2009, p7; Gollin, Parente and Rogerson, 2007; Restuccia, Yang and Zhu, 2008). Structural change is a key enable of socioeconomic development, as Martins explains

(2015, p1): "Structural change can be narrowly defined as a process whereby labour moves from low-productivity to higher-productivity sectors. This relocation of labour raises workers' productivity, which contributes to accelerate economic growth". Besides, the key to eradicating abject poverty resides in the movement from labour-intensive semi-subsistence agriculture and into the more productive sectors of manufacturing or services.

Is structural transformation necessary for Africa to move forward? Martins (2015, p7) provides the answer: "The structure of employment has not changed significantly in Africa over the past 22 years, although there are encouraging signs since 2002. Employment in agriculture fell from 60 per cent of total employment in 2002 to 55 per cent in 2013, while other services absorbed most of this change". Without a rise in new, more productive activities, there is little that has the potential to propel an economy forward and without the movement of resources from traditional activities to these newer activities, productivity gains are not diffused to the rest of the economy (McMillan and Rodrik, 2011).

Economic data shows great variations of labour allocations in the five sub-African regions: Eastern, Middle, Northern, Southern and Western Africa, as defined by the United Nations statistical geoscheme. As Martins writes (2015, p8): "In 2013, mining and utilities accounted for more than 43 per cent of total GVA in Middle Africa, but less than 7 per cent in Eastern, Southern, and Western Africa. The agriculture share of GVA was about 23 per cent in Eastern and Western Africa, but less than 3 per cent in Southern Africa. Finally, other services accounted for 45 per cent of GVA in Southern Africa, but only 12 per cent in Middle Africa. Employment in agriculture ranged from 72 per cent of total employment in Eastern Africa to 9 per cent in Southern Africa, while employment in other services ranged from 48 per cent in Southern Africa to 13 per cent in Eastern Africa. In addition, commerce accounted for 19 per cent of employment in Southern and Western Africa, but less than 3 per cent in Middle Africa". The predominance of agriculture and mining is indicative of



the need for structural transformation for all the regions.

There are also specific compelling reasons that call for structural transformation in Africa. First, empirical studies have found that structural change in Africa largely stagnated between 1990 and 1999, but picked up momentum between 2000 and 2005. Secondly, structural transformation has been most pronounced in countries that stand to benefit the most, as measured by the share of the labour force in agriculture. Thirdly, structural change has been higher in countries with strong institutions, improved governance, effective and competitive educational systems, and competitive exchange rates. Fourthly, in spite of the much-expected positive structural change during recent times, Africa needs considerably more effective transformation to create economic structures that can provide employment opportunities for its expanding youthful population (aged between 18 and 29 years). It must be noted that the historical paths of richer countries suggests that Africa is following a general pattern and that it can accelerate structural change through diversification.

The concept of structural transformation has usually been framed in terms of a reallocation of economic activity between three dominant sectors of agriculture, industry and services. This reallocation accompanies and facilitates the process of economic growth. Historically, the share of activity in manufacturing has increased during low stages of development as capital is accumulated, then decreased for high stages of development where higher incomes drive demand for services and increased labour costs in manufacturing. Some of this transition into services and manufacturing occurs within the rural areas, but much of it involves migration to urban centres as people seek formal employment. Urban workers typically enjoy higher labour productivity because of greater specialization, more access to capital and lower transaction costs in trade, among other things. Countries with the higher economic

growth tend to be those with a sustained reallocation of labour into high-productivity manufacturing and service sectors (Duarte and Restuccia, 2009).

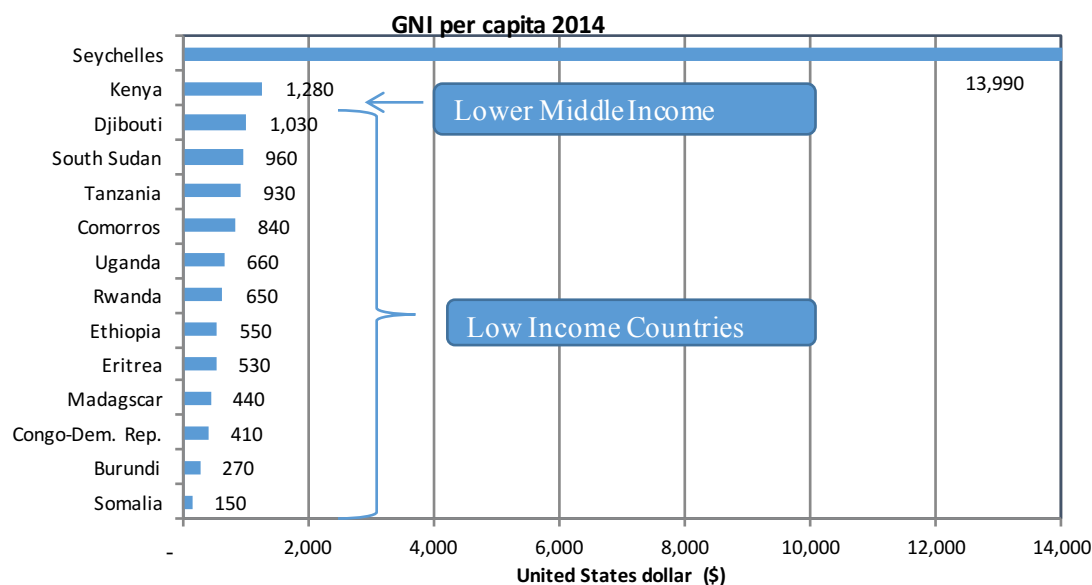
This subsection examines the economic performance of the Eastern Africa region with regard to structural transformation. The main dimensions that are analysed are per capita income, composition of economic output and exports.

### **1. Gross national income**

A country's per capita income is widely used as an indicator of the standards of living enjoyed by the average citizen. A commonly observed fact is that people living in countries with high gross national income (GNI) per capita tend to live longer and are more educated. For this reason, a number of countries in Eastern Africa - Ethiopia, Kenya and Rwanda - have included the specific goal of attaining middle-income status in their long-term development plans. The region's performance in terms of per capita income and income classification is shown in figure 13 below.

The analysis in Figure 13 shows that, based on 2014 economic performance, most (86 per cent) of the countries in the region are classified as low income because their gross national income per capita income was below \$1,045. The only exceptions are Seychelles, which is classified as high income, and Kenya, which is low-middle-income. Mauritius, the comparator country, is among the upper-middle-income countries with a gross national income (GNI) per capita income of \$9,710. A possible interpretation of these findings is that the slow pace of decentralization in the region has not been successful in lifting the average citizen out of poverty. It can also be argued that targeted policies and novel actions are necessary to propel the majority of the countries and citizens from the current state of deficiency. A case can be made that the benefits of recent reforms have not yet been realized, since policy implementation takes effect gradually.

**Figure 13: Income comparison and classification of countries in the region**



## 2. Composition of economic output

Previous research has shown that agriculture is by far the least productive sector in Africa and that employment incomes and consumption tend to be lower in agriculture than other productive sectors. This is the case in many Eastern African economies. McMillan and Harttgen (2014) argue that the “African growth miracle” can be traced to a significant decline in the share of the labour force engaged in agriculture. They support their position through empirical evidence indicating that the share of the labour force employed in agriculture in sub-Saharan Africa declined by about 10 percentage points between 2000 and 2010. The researchers further report that this decline in the share of employment in agriculture was matched by a 2 percentage point increase in the share of the labour force engaged in manufacturing and an 8 percentage point increase in that engaged in services.

Related development literature suggests that structural transformation occurs when the percentage contribution of agriculture to a country’s gross domestic product declines and the contribution of industry and services rises<sup>10</sup>. And

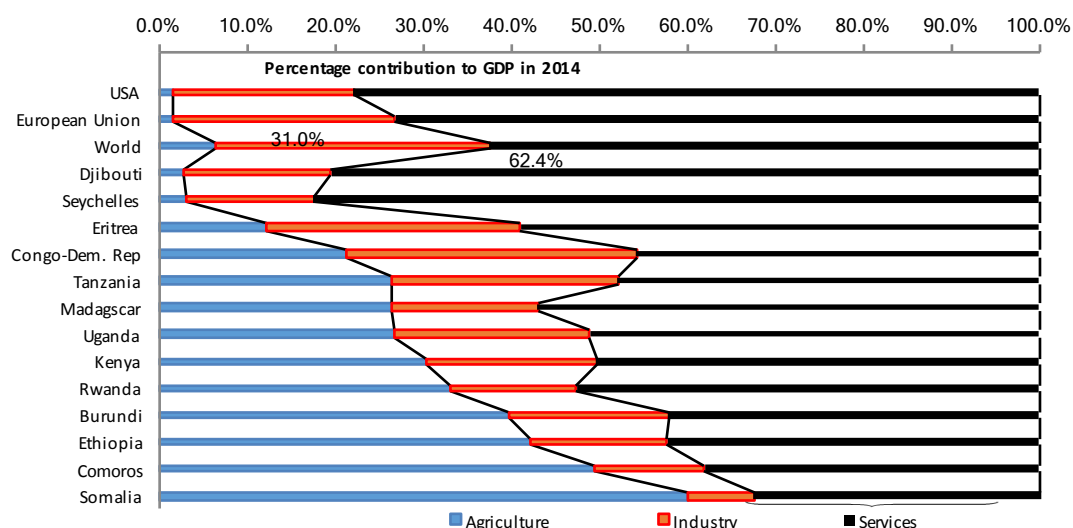
indeed, in advanced nations, services are the main contributors to gross domestic product, followed by industry. Agriculture is largely insignificant and a distant third. In the case of Eastern Africa, analysis of the estimated composition of gross domestic product in 2014 shows that the region has yet to achieve transformation in this respect, as shown in Figure 14. The comparative figures for the European Union, the United States of America and the world are also shown.

Figure 14 shows that the simple average composition of gross domestic product (GDP) for the region is as follows: agriculture 29 per cent, industry 19 per cent and services 52 per cent. The comparative shares for the European Union are: agriculture 2 per cent, industry 25 per cent and services 73 per cent. The economy of the comparator country, Mauritius, which has a substantially high per-capita income than most countries in Eastern Africa, is similar to that of the European Union with agriculture accounting for 4 per cent of gross domestic product, industry 22 per cent and services are the largest at 74 per cent.

In the Eastern Africa region, in the countries where services dominate agriculture, success is an outcome that is generally assumed to be by dint of nature rather than policy design. For instance, little agriculture is practiced in Djibouti and Eritrea due to the unfavourable climatic conditions, while

<sup>10</sup> Agriculture includes farming, fishing, and forestry. Industry includes mining, manufacturing, energy production and construction. Services cover government activities, communications, transportation, finance, and all other private economic activities that do not produce material goods.

**Figure 14: Regional composition of gross domestic product in 2014**



**Source:** National Economic and Social Council, Analysis using data from the World Fact Book, 2014 (Data for South Sudan not available).

the island nation of Seychelles has no suitable land for farming.

A fitting conclusion from the foregoing is the need for targeted policy and institutional reforms to achieve a substantial shift of economic activity from less-productive agriculture to highly productive sectors. The African Development Bank (Brixiova, 2010) singled out Eastern African economies among those that pursued good economic policies to weather the financial crisis and encourage structural transformation. The factors given were:

- Cautious macroeconomic policies were adopted and pursued prior to the crisis
- Appropriate counter-cyclical measures adopted especially in the East African Community focusing mostly on removing supply-side bottlenecks (infrastructure)
- Increased trade and linkages with Asia, especially China, and other emerging economies
- More intensive regional integration in the Eastern Africa region especially in the East African Community.

Timely financial support from multilateral financial institutions, including the African Development Bank, also helped prevent large pro-cyclical cuts in fiscal expenditures (Brixiova, 2010). These

observations suggest that the success of the region in achieving sustainable development will depend on how the issues identified above are factored and integrated into regional and national policies. Also, in order to realise the transformation potential of such policies, it is necessary that these initiatives are backed by sufficient political will, requisite financial resources and appropriate human capital. These measures are necessary to pass up the “death valley” of most well-intended national plans.

The periodicity of development is aptly captured by McMillan and Rodrik (2011) who note that the year 2000 marked the beginning of Africa’s “growth miracle” and coincided with a period of intensified globalization marked by the opening-up of the largest developing country in the world – China – and a boom in commodity prices. It is instructive that the Eastern Africa economies have enjoyed the growth associated with the miracle consistently over a substantial period of time. Much of this development is credited to political and economic reform. If commitments to policy, legislative and institutional reforms continue with vigour, there is hope that the economies in the region will maintain their growth trajectory.

However, an important policy question is whether growth has benefitted the wider population in each country given the increasing population, rapid urbanization and skewed distribution of

income in most of the countries. High Gini Coefficients imply high income inequality and substantially high scores in the region, ranging from 2.8 in Madagascar to 5.4 in Rwanda, suggest the need to examine how equitably the national cake is shared.

### **3. Summary on economic performance**

The results in the above sections (5.4.1 and 5.4.2) suggest that Eastern African countries are yet to achieve structural transformation. Agriculture is on average the largest single productive sector in terms of share of gross domestic product and employment, yet development literature suggests that when structural transformation occurs secondary and tertiary sectors account for the largest share of socioeconomic activity.

Notwithstanding the above, there is good news at the macro level. According to the *African Economic Outlook 2015* (AfDB, OECD and UNDP, 2015), Africa is “poised to resume its medium-term growth trend” and predictions for the Eastern Africa region are favourable. The continued global reduction in oil prices provides an opportunity for the manufacturing and related subsectors, such as transport and logistics, to accelerate growth and deepen structural transformation. Indeed, a strong manufacturing sector will create more employment, especially for young people, and also increase exports and reduce external vulnerabilities from widening account deficits. In addition, the existence of long-term development plans, blueprints and strategic frameworks for growth and poverty-reduction in the regional economies will not only augur well for progress in human development but also in structural transformation.

## **E. Summary and key messages**

The dominant development policy paradigms that have been adopted in Eastern Africa have shifted considerably since independence to accommodate internal needs and external demands. According to the Economic Commis-

sion for Africa (ECA, 2016), these abrupt changes have deprived the region of policy continuity. This said, the region has witnessed major policy reforms in the past 20 years and the majority of these have been internally driven. Specifically, the quest for sustainable development has resulted in the development of ambitious long-term strategies that are likely to have transformational impact on the structure of the economies when implemented successfully.

Among member States, decentralization and new institutional arrangements are some of the major policy reforms that have been implemented in different forms and times in an attempt to support sustained growth. The results so far indicate that these forms of governance have transformed government administration and increased the level of services delivered to citizen.

The commitment and successful implementation of the “vision” documents of the various countries in the region will contribute to transforming the economies as the blue prints are strategically crafted to provide the necessary strategies for structural transformation. There are also opportunities that arise from Africa’s rapid population growth, notably a large consumer market and a young and dynamic workforce. On the other hand, without appropriate policies, this large population could pose major challenges to provision of quality services and, to some extent, a possible major risk due to youth unemployment.

It is recommended that policy reforms be undertaken to support and deepen decentralization as well as to strengthen and modernize institutions. Continued efforts should be made to grow incomes. The clear benefits of consistency in economic policies and institutional frameworks, which has given Mauritius a growing economy, provide Eastern Africa with useful lessons regarding the potential of decentralization, institutions and transformation.

# Chapter VI

## Conclusions and policy recommendations

### A. Introduction

The overall objective of this study was to provide an understanding of the role of “institutions” and “decentralization” in supporting structural transformation among the Eastern Africa member States. An evidence-based approach was adopted in which secondary data was supplemented with observations and informed opinions on the state of play in selected member States. Sufficient theoretical literature was examined and provided the necessary conceptual and theoretical bases for the study. Relevant secondary data were gathered relating to the region’s institutions, decentralization processes, service delivery and levels of participation by citizens. Additional primary data was gathered for the selected sample of four Eastern African countries: Ethiopia, Kenya, Rwanda and Uganda. In addition, inferences were made by comparing the region with a neighbouring country, Mauritius, whose development record has been remarkable.

This study has documented how central governments in the region have ceded political, legislative and fiscal authority and responsibility to subnational units through various forms of decentralization in order to bring “government” closer to the citizens. Another focus of attention was the institutions, both formal and informal as well as public, private and civil society, that have been designed as part of the ongoing reforms to improve service delivery and achieve sustainable development. The study also explored how institutions and decentralization can provide the support needed to improve the well-being of citizens through transformation.

Based on the conceptual framework in section F, the study examined the hypothesized transmission channels through which decentralization and institutions are deemed to influence trans-

formation. These are: policies, leadership, service delivery and citizen participation. The conclusions and key policy recommendations arising from this study are discussed below.

### B. Conclusions

Despite the Eastern Africa’s progress in economic growth in the recent past, productivity and human development gaps persist in the region. In order for the countries to undergo structural change, it is imperative that their economies are competitive and they have better governance and more effective education systems.

Specific conclusions regarding institutions, decentralization and related aspects such as service delivery, capacity of decentralized units and fiscal issues in the Eastern Africa region are discussed in subsection B.

#### 1. Decentralization

The study interrogated the basis for decentralization initiatives in the selected countries. This discourse rested on the key principle underpinning decentralization; the need to transfer administrative, financial and political power to the local level and the creation and strengthening of local institutions in order to enhance the efficiency and effectiveness of government. The same was also informed by the common argument that a decentralized government allows greater citizen participation in local development and permits the government to respond quickly to local needs. In the Eastern Africa region constitutions and other policy and legal frameworks have established decentralization with the aim of promoting democratic and accountable exercise of power, giving powers of self-governance to the people and enhancing the participation of the people in the exercise of the powers of the State and in making decisions affecting them.

The study established that governance has recently become a key focus for governments in the region. In this agenda, reform-minded government officials have found support from the World Bank, International Monetary Fund, donor countries, civil society and the private sector. Governance is indeed important because it dictates the decision-making process and how decisions are implemented, as well as ensuring that stated purposes are achieved with proper accountability.

Evidence obtained in the study shows that the general reasons for adopting a decentralization policy include:

- a) Promote democratic and accountable exercise of power
- b) Foster national unity by recognizing diversity
- c) Give powers of self-governance to the people and enhance the participation of the people in the exercise of the powers of the State and in making decisions affecting them
- d) Recognize the right of communities to manage their own affairs and to further their development
- e) Protect and promote the interests and rights of minorities and marginalized communities
- f) Promote social and economic development and the provision of appropriate, easily accessible services throughout the country
- g) Ensure equitable sharing of national and local resources throughout the country
- h) Facilitate the decentralization of State organs, their functions and services, from the capital cities of each of the countries where the seat of government has always been situated
- i) Enhance checks and balances and the separation of powers.

It was noted that the quest for decentralization remains alive in Eastern Africa with different forms. This is in line with the observation by Crawford and Hartmann (2008, p8): "Many developing countries eventually introduced a mix of delegation, privatisation and deconcentration, while leaving out the politically most relevant sub-type of devolution". Kenya is the only country with a devolved system in the region.

Increasingly, the reasons behind decentralization agenda have stretched from those driven by political interests to those seeking to improve governance and public-service delivery. This study has established the existence in Eastern Africa of constitutional and legal frameworks or mechanisms that facilitate citizens' participation and involvement in making decisions, planning and evaluation. In addition, anecdotal evidence shows that these mechanisms have contributed to the transformation of the relationship between decision makers and the public. In Kenya, for instance, the new legal frameworks have empowered citizens considerably, as evidenced by the number of legal cases that ordinary citizens have filed in court seeking nullification of national and county government rules and regulations that are deemed to go against the principles of public participation.

Notwithstanding these aforesaid positive outcomes, conflicts between the national and devolved governments within devolved systems and the deficiency of institutional and human capital to support effective decentralization and effective public participation are worrying challenges that require special attention. There is also lack of clarity among State organs and the public on what really effective public participation entails.

The study observes that introduction of decentralization in most of the countries in Eastern Africa is a top-down process, mostly led and managed by national government agencies. There are various approaches to implementation. Whereas the top-down approach has the merit of political will and executive ownership, a nagging issue that lingers

in such situations is how to get citizen buy-in and grass-roots participation.

The legislative framework that anchored the decentralization initiatives among countries comprised constitutional provisions and other policy initiatives (Ethiopia, Kenya, Mauritius, Rwanda and Uganda). This clarity of purpose and elevation of the decentralization is a major advantage for the region because it bolsters the sustainability of the decentralization process and the legitimacy of the institutions.

With regard to implementation, the study established that in some cases the decentralization programmes were internally driven and in others they were driven by donor support as part of a reform package, or sometimes driven by a combination of both, with the aim of improving governance and service delivery. However, a common challenge noted is to establish sustainable structures that are locally owned and self-perpetuating.

In many of the countries, politicians at the local level were more concerned with immediate results which would ensure that they were re-elected to office, and they were less interested in long-term strategic interventions for the development of their areas. An unwelcome consequence of this short-termism is incessant conflicts between the executive and the legislative arms in those decentralized units. For example, in Kenya, there were stand-offs between the two levels of county government in several counties leading to budget cut offs.

The levels of decentralization differ from country to country: Kenya, Uganda and Rwanda have introduced two levels of government, while Ethiopia has a federal system. Conflicts between the executive and the legislative arms of government were noted in all forms of decentralized governance. In the case of Ethiopia, Rwanda and Mauritius, these conflicts were less pronounced partly due to clear policy commitments on the implementation of decentralization agenda and strong political control from the centre.

Overall, decentralization was seen as a possible pathway to development by creating strong sub-national governance structures that can harness citizens' participation, help develop accountable and transparent leadership, and generate and implement appropriate policies.

## **2. Fiscal decentralization**

Issues of reliability, adequacy and sustainability of various sources of finance at the local levels or decentralized units were found to be critical in evaluating the extent of structural transformation in the region. This is based on the fact that the mode of financing of decentralized units depends on the fiscal policies and legislation adopted by national Governments and the discretionary powers allocated to the devolved or decentralized bodies to plan and raise locally generated revenues. Planning and raising of local revenues has faced challenges such as: inadequate use of financial systems, inadequate human resources at the local levels and conflicts between the executive and the legislature that prevented policy formulation aimed at revenue enhancements in many devolved units, as witnessed in Kenya.

It was found that most Eastern Africa countries have entrenched fiscal and financial decentralization components in their national decentralization laws, policies and implementation strategies. The design and practice is that decentralized units in the region rely less on local revenue sources and more on transfers from central Government, grants and external financing sources. An observation that flies against the tenets of fiscal decentralization is that the decentralized units raise less revenue than the former local authorities in all the countries. While this may be as a result of lack of capacity, it also raises the issue of the commitment and trust of citizens in decentralized governments. Further, it was also noted that decentralized units tend to have a larger service envelope than their revenues can support.

A number of development partners play a significant role in financing decentralized units, especially through support to Government-led reform initiatives, capacity development and direct funding of community-development initiatives.

Consistent with the new paradigm of development planning, the key-informant interviews established that some of the leading players in this respect are development agencies including the United Nations Development Programme, the United States Agency for International Development (USAID) and the Department for International Development (DFID).

### 3. Institutions

Decentralization and new institutional arrangements are some of the major policy reforms that have been implemented in different forms and times in an attempt to support sustained growth in the member States. The results so far indicate that these forms of governance have helped to transform government administration and increased the level of services delivered to citizens. This is despite the fact that the *Global Competitiveness Report* shows that the region has weak institutions.

Institutions were viewed as critical pillars in the quest for structural transformation. They help to support better policymaking and implementation; promote good leadership; enhance participation and help in accountability. In addition, institutions provide support for improved decentralized structures by bringing about better decisions, an improved regulatory environment, social cohesion and appropriate medium- and long-term interventions that are responsive to the changing dynamics of local and national economies.

### 4. Policy design

In common with other African countries, most policy-planning paradigms in Eastern Africa countries have lacked continuity, thus weakening their capacity to support development. The inability of structural adjustment policies (widespread in the period 1980-1999) to bring about structural transformation in the region is a clear example of sub-optimal outcomes when there is deficiency in policy coherence and consistency. Looking ahead, there is hope in the recent long-range planning policies ("Vision" documents) that target a large cluster of goals, such as poverty reduction and social inclusion. Moreover, these visions have a greater chance of acceptance due to their high

local content and a wider set of growth anchors such as institutional reforms and decentralization. Clearly, the role of the State in guiding development planning is evident in these new planning frameworks.

### 5. Inclusive service delivery

The countries studied in the Eastern Africa region had clear legal frameworks stating that the decentralized units were mandated to provide a number of specified services to the citizenry within their jurisdictions. This arrangement engenders order and reduces areas of confusion and conflict. Unlike in the Eastern Africa region, the decentralized units in Mauritius, had very little to do in the local areas as the government ministries took responsibility for nearly all the functions. Some of the many services that decentralized units in the Eastern Africa countries were mandated to provide were as shown below:

- a) provision of social services such as education, health and housing
- b) planning, infrastructure development and maintenance
- c) waste-management and environmental conservation
- d) facilitate local economic development
- e) security for people and property
- f) judicial services, to some extent.

In all countries, it was clear that the range, cost and promptness of service delivery have improved in the recent past. One of the main drivers of this outcome is the transfer of services from a "distant" central government to a local unit that is within easy reach of the citizens and also that is staffed with local officials, who are likely to understand local issues better.

The major challenges in regard to service provision appeared to be: accessibility and adequacy of these services, and particularly in ensuring equitable, gender-responsive, participatory and sustain-



able service delivery; partial decentralization of some services (for example, in Kenya); and inadequate capacity of the people and other stakeholders at the local levels to participate adequately in decision-making (Kenya, Uganda and Ethiopia). These operational challenges were aggravated by inadequate financing from the central Government and inability to raise revenues at the local level.

Service delivery needs and requirements vary depending on the contexts and setting. Indeed, each setting has its own unique dynamics. Some of the key issues that were noted for inclusive service delivery include:

- a) Establishment of an enabling legislative and legal framework for inclusive service delivery
- b) Strengthening enabling institutional arrangements and having clear policy commitments
- c) Building the capacity of decentralized units to engage effectively with a wide variety of local stakeholders in service planning and delivery
- d) Improving the skills of the staff and especially community-participation skills in decentralized units
- e) Defining clear roles for the stakeholders in local development
- f) Enhancing the monitoring, evaluation and community feedback and redress mechanisms

## **6. Capacity of decentralized governments**

A common challenge, which was repeatedly cited by stakeholders in decentralized units and by government officials in the study countries, is the lack of critical capacity to develop and coordinate mechanisms to engage local stakeholders. For example, in Kenya, the public-private partnership (PPP) frameworks had not been properly customized for the devolved units. In nearly all the study countries, the cost of participation was not factored into plans to implement decentralization and this led to under-funding and under-investment in the implementation programmes. In

response to this problem, several development partners are funding capacity-building to increase citizens' participation (for example in Kenya, Uganda and Mauritius).

Information gathered in this study leads to the conclusion that the success of any decentralization implementation effort is dependent on continually building and sustaining adequate levels of the decentralized units' capacities in terms of the following:

- i. Build the capacity of staff and political leaders
- ii. Introduce and implement transforming leadership and change-management training
- iii. Enable governance, policy and legislative frameworks
- iv. Development of human capital
- v. Financial resources and planning
- vi. Enable institutional structures
- vii. Communication channels
- viii. Inclusive service delivery mechanisms

## **7. Structural transformation**

The study affirms that there has been progress with respect to structural transformation in the region. In 2010, after the global financial crisis, Ethiopia, Kenya, Rwanda, the United Republic of Tanzania and Uganda achieved relatively higher levels of growth than the rest of Africa and the global average. This growth has been anchored on policy and legislative frameworks that were enacted in pursuit of development. Moreover, the adoption and implementation of various decentralization frameworks has seen the countries open up to different stakeholders, including citizens, communities, development partners and the private sector. Other factors that have fuelled the growth are adoption of new trading regimes and paradigms that saw increases in export trade as well as business diplomacy that endeared the countries to the Asian economies and especially

China in new trading arrangements with support for economic development. Suffice to note that this growth has been driven largely by services and construction. The countries have small mining sectors and relatively small manufacturing bases, whose contributions to gross domestic product have been declining, in some cases.

The general structure of the economies in Eastern Africa is still relatively dependent on low-productivity agriculture, since transformation is still largely lacking. The industrial sector is still very weak. Indeed, the Economic Commission for Africa (2016) laments that the pace of transformation has been too slow for the continent to translate its recent growth momentum into commensurate gains in poverty reduction and job creation, or to promote sustainable and inclusive development.

Despite the recent impressive growth rates of the economies in the region, an unsettling observation is that the average incomes of the citizens have remained low. Moreover, the global competitiveness rankings of most countries, except for Rwanda and Seychelles, are poor. This suggests that these economies have low abilities to achieve higher productivity and increase economic output. It can therefore be inferred that the economies in the region have not yet achieved transformation with regard to their institutions, policies and the factors that determine the level of productivity of each country.

An important question still to be answered is whether the positive trend in economic growth can be sustained for a longer period. Much will depend on the continuation of the good policies that have worked, such as: greater integration as witnessed in the East African Community; appropriate stabilization policies; increased industrialization including development of value-addition in the agricultural sector (meaning the need for appropriate support in transforming agriculture); infrastructure development; and growth in services, among other considerations, as discussed in this report.

The foregoing suggests that Eastern African countries should scrutinize their policy choices keenly

and consistently pursue those that help to achieve the needed structural transformation to generate high growth with increased employment creation. Indeed, structural transformation in the region requires focused and concerted attention. Among other factors, a national policy approach which can help in this respect is a developmental State with sound home-grown long-term development visions and plans.

These observations and conclusions provide a sound basis for suggesting appropriate policy-reform measures targeting both institutions and decentralization processes as well the delivery channels of policies, public participation, leadership and service delivery, in order to promote structural transformation in the region. The specific policy recommendations that countries in the Eastern Africa region may consider in this respect are discussed in section C below.

## **C. Policy recommendations**

### **1. Structural transformation**

The failure of nationalist post-independence policies and structural adjustments confirmed that structural transformation cannot be assumed to be assumed. As the Economic Commission for Africa authors (2016) point out, it is recommended that governments in the region play their critical roles in guiding the process, through a development planning framework with coherent strategies to achieve development objectives in both the short term and the long term.

### **2. Supporting decentralization**

In recognition of the benefits associated with decentralization, it is suggested that regional bodies should design comprehensive programmes to encourage and support the formulation and implementation of appropriate decentralization policies and programmes in East Africa. Such initiatives should address topical issues including: the relationships between the national Governments and subnational units; the power centres such as bureaucracy, media and civil society; and the role of legal and policy frameworks that have significant influence on structural transformation. Granted, each country's politics and social context affects the nature and form of decentralization

that suits it best. Initially, a periodic meeting of ministries that are responsible for decentralization among the member States can be a useful forum to grow the initiative of shared learning.

A related engagement would be to provide support for political and legal-reform processes geared at anchoring decentralization in the constitutions, laws, regulations and other frameworks of all the member States. In addition, institutional and policy frameworks should be strengthened to provide the bedrock on which decentralized systems should function. In all the efforts at transformation, it is important to remember that a balance must be sought between national and local interests.

### **3. Fiscal decentralization**

Countries in the region need to re-evaluate their fiscal decentralization policies in order to align them with their resource-generation capacity and service mandates. This will involve unbundling and re-costing the functions between the various levels of assigned responsibilities in order to avoid wastage and duplication while at the same time preventing jurisdictional overlap and coordination challenges. An aspect that requires attention in this respect is streamlining intergovernmental linkages between political, administrative and technical roles, across the board. In addition, political support will be required for fiscal decentralization to succeed.

### **4. Governance and accountability**

There is a need to develop clear policy to support implementation frameworks and strategies in the region. This will help to address the observed problem of good policy intentions and proclamations that are not implemented. Some mileage can be gained if member States in Eastern Africa could work together as a bloc to improve local governance and inclusive service delivery in their efforts to reduce poverty and achieve structural transformation. This effort should help deal with the region's poor scores on areas of transparency and governance such as government efficiency, corruption, rule of law and others.

### **5. Institutions**

There is need for appropriate technical expertise to strengthen the capacity of institutions to deal with the demands of decentralized government that entail many points of contact with citizens in terms of elections, fiscal matters and holding the public sector to account. This requires that citizens have access to government documents. To support this scheme, decentralized units should consider providing effective public and civic education and opening citizens' access to documents and information. Evidence from the literature reviewed and key-informant interviews shows that existing institutions are not able to cope with the demands of decentralization. The capacity of decentralized units needs to be enhanced in every country in order to accelerate structural transformation.

In addition, it is recommended that institutions should be designed locally and grown endogenously to avoid supplanting dysfunctional structures from other parts of the world. Moreover, continuous efforts should be made to innovate the institutions and make them relevant for the developmental needs of each country.

### **6. Capacity-building**

An appropriate policy is needed to guide the delivery of a concerted capacity-building framework for training citizens and government officials at all levels on how to conduct and effect successful public participation. This need is premised on a widely observed dearth of skilled staff in the region where essential technical staffs are in great demand to service the expanded public service, following decentralization. It is also noted that the capacity of the labour force has a critical impact on the success of decentralization and the ability of institutions to function properly. Such capacity-building should also address the "demand side", which are the institutions and citizens that are involved in organizing citizen participation and calling for accountability.

### **7. Public participation**

To ensure effective public participation, East African countries should consider developing a comprehensive framework to guide orderly and

informed public participation. This framework should be accompanied by an appropriate strategy and programme for operationalization. Joint national initiatives between States in East Africa can provide a strong drive.

Such public participation framework will address the following challenges that were noted in the study:

- i. Although a majority of civil society organizations are vibrant, their activities remain suspect within government corridors and, at the same time, State agencies have used cooption to weaken civil society organizations
- ii. There is little coordination between civil-society institutions, leading to fragmented initiatives that undermine effective public participation
- iii. The rules and systems that govern public participation are fragmented, which denies the

countries the substantial benefits of public participation

- iv. Citizen participation is characterized by very limited formal capacity and resources, despite being an important pillar of effective decentralization
- v. There is generally no concrete comparative empirical data on public participation within the Eastern African region
- vi. The literature on public participation has lamented on the problem of “tokenistic forms of participation”, and this should concern decision makers.

Effective public participation from a pluralistic sense assumes the existence of a highly liberal democratic State; however, most countries in the region are nowhere near true democracies.

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