

Decentralization and Agricultural Development

Decentralization of Agricultural Services





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Table of Contents

1	Summary	1
2	Introduction.....	1
3	Public sector role in agricultural services provision	2
	3.1 The range and importance of agricultural services	2
	3.2 Growth of public sector service provision.....	3
	3.3 Some consequences of public sector intervention	4
	3.4 International responses	5
4	Conceptual framework for policy decisions	7
	4.1 Economic rationale for government intervention.....	7
	4.2 Components of service provision.....	10
	4.3 Assessing functional responsibilities for provision	10
	4.4 Challenges and risks of diversity in provision	19
5	Planning and implementation of decentralization.....	20
	5.1 Establishing the case for reform.....	20
	5.2 Review of options	21
	5.3 Political commitment: and over-arching view	23
	5.4 The pace and phasing of reforms	24
	5.5 Monitoring effectiveness	25
6	References and further reading.....	25
	Module metadata	25

1 SUMMARY

This module provides an overview of “Decentralization of Agricultural Services”. It first explains the range and importance of agricultural services; the traditional role that governments had assumed in their provision; consequences of public sector interventions; and the perceived need for institutional reform, including a reduced role for central government in service provision. It then examines the conceptual framework for policy decisions. Aspects highlighted are the economic rationale for government intervention; functional responsibilities for service provision; and challenges and risks in diversifying provision. Options for reforming agricultural services and how the reform process would need to be planned and managed are next reviewed.

2 INTRODUCTION

This module focuses on the decentralization of agricultural services, which comes within the ambit of service delivery. Although not intended for a specialist economist audience, it draws attention to and questions the economic reasons for government interventions. In so doing, some basic economic concepts are presented and explained, but with the general reader in mind.

The module stresses the need for systematic assessment of the broad options for decentralization, including the ‘no decentralization’ option of exploring possible improvements to internal efficiency and enhancing the market environment. This is important in reinforcing the message that there can be no single formula for decentralization.

The importance of proceeding at the right pace, adoption of a phased approach, and the need for adequate monitoring are also stressed, as matters of sound management practice. The module is meant to provide a unifying framework for examining in greater detail decentralization of specific agricultural services covered in other modules of the training path. Issues discussed have applicability in a range of other training contexts, including those on rural development strategies; participatory approaches to development; sustainable livelihoods; local and regional development; and environmental analysis and planning.

Objectives

The main objective of this module is to highlight the main issues relating to policy decisions on whether and how to decentralize agricultural services. It is one of a set of modules on “Decentralization and Agricultural Development”. Issues discussed in this module are further elaborated in other modules, spanning a range of specific services.

Target audience

This module is intended for a wide audience, ranging from policy analysts and decision makers, to development practitioners, training institutions, and media. It is of particular relevance to senior and mid level officials and professional officers in ministries of

agriculture, livestock, forestry, rural development, and cooperatives, including line departments and training institutes/units. It should also be of interest to senior executives of parastatals, financial institutions, and NGOs/CBOs. Suitably adapted, it may also be used as a reader in undergraduate courses in development.

Required background

It is anticipated that individuals with a degree in economics, and agricultural or rural development related areas, and those with several years of experience in agricultural policy analysis or development planning and implementation, at a mid to senior level position, should have little difficulty in grasping the module's content.

To find relevant materials in these areas, the reader can follow the links included in the text to other EASYPol modules or references¹. See also the list of useful EASYPol links included at the end of this module.

3 PUBLIC SECTOR ROLE IN AGRICULTURAL SERVICES PROVISION

3.1 The range and importance of agricultural services

It is difficult to give a precise definition of 'services'. They are extraordinarily heterogeneous and there is no clear boundary to demarcate 'goods' from 'services'. Instead, it is helpful to think of the 'pure' production of goods and the 'pure' production of services as two ends of a spectrum. Towards the 'goods' end, the emphasis is on the provision of a material product (for example, fertilizer distribution). Whereas, the 'service' end emphasises execution of a process (for example, providing business management advice).

The degree of interaction with the customer increases and the material product component decreases as we move towards the service end of the spectrum. But fertilizer distribution and as well as farm management advice are forms of agricultural services, both of which may be important to farm profitability. In this and subsequent modules, agricultural services will be considered as embracing all of those non-tangible, non-storable items provided to agricultural producers in order to increase, directly or indirectly, the productivity of resources used in on-farm operations.

Many of these services relate to the *marketing* of (tangible) agricultural inputs and outputs. In this regard, all of the functions related to the transfer of products in time, form and space from farm to consumer affect the productivity of on-farm resource use, and hence are agricultural services. Moreover, the provision of legislation, regulatory services, finance, insurance, the development of new technologies, technological and business information advice, and plant and animal disease control measures could all be

¹ EASYPol hyperlinks are shown in blue, as follows:

- a) training paths are shown in **underlined bold font**;
- b) other EASYPol modules or complementary EASYPol materials are in ***bold underlined italics***;
- c) links to the glossary are in **bold**; and
- d) external links are in *italics*.

embraced within the definition. When the indirect effects on agricultural productivity are considered, the concept of agricultural services can be further widened to include:

- Services that provide the infrastructure required for production, such as the construction, operation and maintenance of irrigation facilities, construction and maintenance of rural roads.
- Social services, such as general education, technical training, healthcare facilities, drinking water supply, and so on.
- Those related to the promotion of farmers' organizations.

3.2 Growth of public sector service provision

Many developing countries, at the time of their independence, wanted to consolidate their newly-found political independence with economic independence. To achieve this, most adopted an interventionist, self-reliant and socialist approach to development. This included controlling both macro-economic prices, such as the exchange rate and interest rates, and the prices of individual goods and services. It also involved imposing quantitative restrictions on trade and assuming a major role in provision and production of a wide range of goods and services, including those classified as private goods².

In the agricultural sector, growth of production was seen as a major government priority. In order to achieve the growth potential it was argued that an integrated package of services, including development and extension of new technologies, distribution of inputs, equipment and credit and the construction of production and transport infrastructure had to be provided.

For most agricultural services, the absence of developed local enterprise and the underdeveloped state of many markets meant that state involvement was seen as the only means of rapidly providing adequate services to small farmers³. Financial incentives were often extended to farmers in the form of subsidized credit and farm inputs and equipment, and government financing of the cost of the technology development and transfer, and input distribution networks, as seen below.

Input supply, marketing and rural finance. In many countries, both the supply of major inputs and the marketing and processing of the main agricultural commodities were taken over by the state. State intervention and control were usually most pervasive for export crops, which were often the major source of foreign exchange and an important source of fiscal revenue. Other reasons for this overwhelming role in crop marketing were the promotion of new export crops and the desire to smooth price fluctuations, with a view to reducing the negative impact of price instability on producers and consumers. Governments also created other instruments, such as farmers' cooperatives and agricultural banks, to facilitate the supply of inputs on credit to farmers.

² These are goods that are easy to exclude others from access, and have a high degree of rivalrousness, that is where consumption by one party comes at the expense of others.

³ Westlake, M. J., 1994.

Agricultural research. During the 1960s and 1970s governments and donors invested heavily in agricultural research programmes, with significant breakthroughs in improved yields of many major food crops. Governments also invested heavily in the development of these breakthroughs into ‘technical packages’ of seeds, fertilizers, chemicals, improved tools and new practices. Agricultural research was concentrated in public sector organizations and the relationship with farmers became an almost exclusive domain of Ministry of Agriculture extension staff.

Extension services. Public organizations were established, or significantly strengthened, to diffuse technology packages through demonstrations and training aimed at persuading farmers to adopt them. This gave birth to large-scale agricultural extension services, employing large numbers of staff, with the task of promoting technology transfer, distributing inputs and improved equipment and, quite often, handling credit as well. The national extension services were to provide the link between agricultural research and farming communities.

Irrigation facilities and services. Irrigation schemes, large and small were set up and water services provided at highly subsidised rates to farmers. Recovery of capital costs of these schemes was rare, and in most cases operation and maintenance costs were only partially, if at all, recovered. Because irrigation services were often provided by a different department from that of research or extension within the Ministry of Agriculture, and at times by different ministries, coordination of various services at times became problematic.

3.3 Some consequences of public sector intervention

A common feature of most public agencies dealing with agriculture was the granting of monopoly rights over factors deemed necessary for their tasks. These included the import of agricultural inputs and the purchase of domestically produced outputs; access to government subsidies, and zero- or low-interest finance for on-lending to farmers. Governments paid the capital and recurrent budgets of these agencies, or made good their current deficits whenever sales revenue did not cover costs. Subsidies on inputs and equipment and the burden on the government budget of the recurrent and capital costs of the organizations contributed significantly to central government budget deficits and increased foreign exchange borrowings in many countries over the years.

These interventionist policies had led to the creation of large unchallenged public organizations and parastatals, often controlled by politically appointed managers only loosely accountable for their performance. In many countries these became a source of patronage by virtue of their capacity to offer direct employment opportunities and to select the clients to whom public financed benefits were distributed. The system soon developed into a series of inward looking, solid constituencies for the politicians who supported the intervention policy in agriculture.

The paramount common interest of politicians, managers and staff of government extension services, input supply monopolies, agricultural banks, and cooperatives was the growth of the constituency in terms of employment and privileges, closing the vicious circle. As long as external assistance, directly or indirectly, paid for the costs

that governments could not meet with fiscal revenue, there was little incentive for change. However, eventually the economic and political climate altered and the need for institutional reform became apparent.

3.4 International responses

Various global economic events had sown the seeds for institutional reform. The two oil price shocks during the 1970s; recycling of oil revenues countries as loans to third world governments; and the ensuing debt crisis of the early 1980s which accompanied world interest rate rises and declining commodity prices, had resulted in severe balance payment problems for many developing countries. With private banks less prepared to lend to indebted countries, and declining aid flows, these countries began to turn to the IMF for balance of payments support.

Both the IMF and World Bank, in response to these conditions, undertook various initiatives aimed primarily at economic stabilization and structural adjustment. Meanwhile, there were major shifts in economic thought, towards macroeconomic approaches to economic stabilization and preferences. This favoured economic liberalization and 'rolling back the state' leading to instituting of a new policy agenda that included privatization and deregulation as corrective mechanisms for improving economic efficiency:

Stabilization Programmes. IMF programmes sought to correct payments imbalances by imposing domestic demand restraint induced through a credit squeeze, using both 'expenditure-reducing' and 'expenditure-switching' policies. The former were often targeted at the public sector, seen to be the major source of excess demand. Main policy instruments used were domestic credit restrictions and reductions in government expenditure and subsidies. Lowering the budget deficit was meant to reduce inflationary pressures. This frequently meant cutbacks in productive services and welfare activities.

Experience had since shown that the conventional IMF 'stabilization' approach per se was wholly inappropriate and unacceptable for solving the problems of many developing countries. At best, this could not address the chronic balance of payment and structural problems that besieged the agricultural sector. In fact, long term growth was impeded by import and investment restrictions, whilst already low living standards and income disparities worsened.

Structural Adjustment. In the 1970s the World Bank placed a lot of emphasis on poverty alleviation and had increased project lending substantially in areas such as rural development for small farmers. But by the end of that decade, concern had shifted to the long-term outlook for growth, and the need for developing countries to structurally adjust their economies. It had also accepted the neo-liberal agenda for economic liberalization⁴. This led to a switch of World Bank strategies from project lending, which had frequently supported agricultural service provision, to policy-based lending, aimed at structural adjustment. There was a reorientation of approach to 'structural adjustment with growth' that attempted an orderly adjustment of both macroeconomic

⁴ This was clearly seen in World Bank, 1981, familiarly known as the Berg Report

and structural imbalances, and foster growth while bringing about a balance of payments position that is sustainable in the medium term.

During the 1980s the World Bank introduced a Structural Adjustment Loan (SAL) programme that consisted of non-project lending in support of programmes, policies and institutions aimed at structural adjustment and economic liberalization. The IMF also adjusted its approach and introduced a Structural Adjustment Facility (SAF). This required preparation of a comprehensive three-year policy paper setting out macroeconomic and structural adjustment objectives, strategies, instruments, and financing requirements for the implementing the adjustment programme.

Rolling back the state. The economic crises of the 1970s also triggered a major reversal of academic perceptions and political attitudes⁵ that heralded a more widespread acceptance of a monetarist approach to macroeconomic stabilization. This coincided with, and was enmeshed in, the development and growth of the neo-liberal agenda and policy preferences that were advanced with the emergence of conservatively inclined governments at the start of the 1980s. The main thrust of this new policy agenda was a strong preference for economic liberalization. This implied ‘rolling back the state’ both in terms of its ownership of assets and of its regulatory activities in trade, industry, agriculture, credit and foreign investment.

The economic arguments used to support this agenda centred on the failure of the state to create the right system of incentives for an efficiently operating economy. The extent of government intervention in, and poor performance of, the agricultural sector in many countries was often cited as evidence of this state failure. The corrective mechanisms advocated were privatization and extensive deregulation, recommended in the belief that freely operating markets will encourage the more efficient use of scarce resources. It was also argued that economic liberalization would improve equity, as the poorest tended to be most disadvantaged by the interventionist policies then in force.

Decentralization as part of reform package. During the 1980s measures also began to be devised to decentralize the economy by privatizing public sector enterprises, deconcentrating the over-centralized government administration, and strengthening local governments through devolution of various functions previously entrusted to central government units. Donors and governments also recognized the important role that non-government organizations (NGOs) were performing in providing services to farmers, and began to devise ways and means to associate them to the rural development efforts in a coordinated manner, within the framework of overall national decentralization policies.

By the end of the 1980s, the new course of rural development policies, essentially inspired by liberalization and decentralization principles, had taken a coherent form in most countries. During the 1990s these policies were introduced, in different forms and in different degrees, in practically all developing countries. The new policies changed development strategies in agricultural research, input supply, crop marketing, extension,

⁵ Mosley *et al.*, 1991.

veterinary services, rural financial services and water resource management. Indeed, the entire range of rural development activities was affected.

4 CONCEPTUAL FRAMEWORK FOR POLICY DECISIONS

4.1 Economic rationale for government intervention

Three main economic reasons in support of government intervention in service provision are: a) correcting for market failure; b) provision of merit goods; and c) welfare and income distribution considerations. The first and third of these are of particular significance to decisions concerning decentralization of agricultural services. Their policy implications vary according to type and nature of the service concerned, as discussed below.

Correcting for market failure

A major reason for government intervention has been the perceived presence of market failure. This term is used to describe situations where the unfettered use of the market system or the private sector to allocate goods or services would not lead to an economically efficient⁶ outcome, where the price of the good adequately reflects the (opportunity) costs to society of producing it. Such a situation is associated with under- or over-provision of the good or service, depending on the source of market failure. Main sources of market failure in relation to agricultural services are⁷:

- Externalities or spillovers
- Presence of monopolies
- Incomplete or missing markets, including ignorance and uncertainty
- Low excludability and low rivalrousness of public goods

Externalities or spillovers. Their presence (see Box 1, below) is an example of ‘market failure’ that may also justify government intervention. Where the externalities are associated with what are typically considered to be private goods, governments often intervene in the provision of the good through regulatory or fiscal instruments to bring production and consumption more in line with a economically efficient outcome. Direct controls on production, taxes and subsidies and the creation of property rights and markets in externalities⁸ are the main instruments used for this purpose. However, where governance is weak and government regulations or fiscal instruments would be

⁶ In economics textbooks this would be referred to as a ‘Pareto efficient’ market where it is impossible to make one member of society better off without making someone else worse off.

⁷ Further discussion of the implications of market failure in the context of environmental goods and services is provided in the EASYPol Modules 016: [Environment in Decentralized Decision Making: An Overview](#) and 017: [Environment in Decentralized Decision Making: Economic Rationale in Caring for the Environment](#).

⁸ The recent discussions on tradeable emission targets are an example of this approach.

ignored, a government may feel that it has no option but to physically produce the product itself.

Box 1 - Examples of externalities

An externality or spillover exists whenever the production or consumption decisions of one individual unintentionally impact on the production or consumption decisions of others in some way other than through the market. There are many examples of negative externalities in agricultural production and marketing such as the careless use of pesticides and the failure to control certain types of pests and diseases. There are also many examples of positive externalities, one being the development of new crop and husbandry practices or new plant varieties, if these can be copied or used by other farmers without paying for them.

Monopolies. Market failure occurs in the presence of monopolies where there is a strong likelihood that prices will be held above the costs of production and economic profits generated. Some monopoly situations actually arise from government actions such as the exclusive right granted by a government to a public or private sector agent to purchase agricultural products from farmers. Other monopolistic tendencies result from control of an exclusive source of supply (for example, a water well or the foundation material of hybrid seeds), from market fragmentation, economies of scale, poor infrastructure and lack of credit.

Governments can reduce these tendencies by adopting policies that encourage competition and free trade and ensure that artificial barriers to entry are removed for domestic and foreign suppliers. However, in the case of natural monopolies (where economic efficiency requires price to be set below the average cost of production, but unregulated monopolies are tempted to set a price above the full costs of production), governments are likely to assume responsibility for producing the good or service themselves. The alternative is for a government to regulate the price and/or output of private sector provision.

Missing or incomplete markets are another source of market failure. This stems from imperfect information, risk, and poor transport and communications infrastructure. All of these particularly affect agricultural service provision to remote areas and may make it prohibitively expensive for the private sector to provide some types of goods and services.

Low excludability and rivalrousness. Another source of market failure is low excludability and low rivalrousness (see explanation in Box 2, below). These features characterize pure public goods such as the law, the judiciary system, and services provided by the national defence system or agricultural inspection agencies. These are typically provided by the government and paid for out of taxation as they potentially benefit all members of the community and 'free riding' makes it difficult to charge users directly for these services.

Box 2 - Concept of Excludability and Rivalrousness

Excludability relates to a situation where consumers who do not meet the conditions set by the supplier of the good/service are excluded from using (consuming) it.

Rivalry relates to a situation where one person's consumption of the good/service comes at the expense of another person's consumption. So, if one person uses the good/service another person cannot use the same good/service.

Low excludability means that it may be difficult to exclude people from 'free riding' and enjoying the benefits of goods and services even if they have not paid towards their provision. Producers would find it difficult to recoup the full costs of their provision and, from an economic efficiency viewpoint, would thus tend to under-produce such goods.

Low rivalrousness means that one person's consumption of the good does not reduce its availability to others. As the cost to society of additional consumers enjoying the benefits of pure public goods is zero, economic efficiency requires their price to be set at zero. As a result, it would not be profitable for the private sector to attempt to sell these goods.

For many agricultural services the degree of excludability or rivalrousness is often determined by the precise nature of the service, and the social and political conditions under which it is delivered. Thus, similar services, such as extension advice, may be delivered by the private sector in some situations but can only be provided efficiently by the public sector in others.

Welfare and income distribution considerations

Even if an economy is economically efficient it does not mean that the allocation of goods it generates is consistent with the government's social or political objectives. For example, the government may wish to intervene by providing safety nets to ensure that people who are temporarily or permanently disadvantaged have access to minimum levels of certain goods and services. Equally, if a government's main objective is to remain in power it may intervene in the provision of goods and services to increase the welfare of its potential supporters.

If re-election depends on the votes of urban consumers rather than those who live in rural areas then one may expect to see increased provision of (subsidized) goods and services in urban areas and the relative neglect, or even increased taxation, of goods and services for rural areas. However, if a government is more concerned with reducing inequalities in income or in poverty alleviation then its interventions in the provision of goods and services may be entirely different, particularly if poverty is mainly a rural phenomenon.

4.2 Components of service provision

One of the bases of the institutional reforms carried out in recent decades is the appreciation that the provision of any good or service can be disaggregated into four components, namely:

- Financing or funding the good or service
- Physical production and delivery
- Regulation of provision
- Consumption of the good or service

A crucial factor influencing the decentralization decision is that there is no necessity for these four components to be provided by the same sector or organization or even level of government. For example, there might be some types of services that the state may decide should be **regulated** at the central level, but which local government might **finance**.

At the same time, the local government may decide that the production of the service would be most effectively conducted by the private sector, perhaps under contract, with the ultimate consumers being target groups within the local rural communities. Equally, with merit goods that are also private goods, there is no reason why government should be concerned with their production if it can achieve its objectives through financing and regulating their provision. A different configuration might apply to every type of good or service, hence there is no single recipe for deciding on responsibilities for provision.

4.3 Assessing functional responsibilities for provision

Since different entities (organization, level of government) may assume responsibility for different components of provision, it follows that decentralization need not apply to all components of provision. That is, different forms of decentralization can be used for various functions. In deciding on functional responsibilities, three main questions are posed: who should pay? who should produce? who should regulate?

a) Who should pay?

One of the reasons why governments have provided agricultural services in the past is because it has been considered desirable or necessary for the government to pay for them. The decision to decentralize offers an opportunity to question such decisions, particularly where these are done on merit goods or income redistribution grounds. An examination of payment issues may be done from two perspectives: a) market-based pricing principles; and b) government fiscal arrangements. These shade into the question of cost recovery and pricing regimes, which determine who ultimately pays and the extent of payment for the service.

Market based pricing

In a market economy, the price that a rational consumer is willing to pay for another unit of a service is less than, or equal to, the benefits that they hope to obtain from their entitlement to that service. Typically, demand for a service decreases as its price rises, in part because of income constraints and also because its substitution effects. Sellers

will be reluctant to continuously sell a service for a price that is less than the full replacement cost of the resources required to provide it, and would be better off using their resources elsewhere. As the price of a service rises, producers typically will be willing to offer more of it because they can make a more profitable use of their resources in this way.

In a competitive economy with freedom of firms to enter or leave the industry, the balance of effective demand and supply will determine the price of the service. Market price can be thought of as a rationing device. If demand increases price will rise and existing firms will expand production. If prices rise sufficiently to generate economic profits⁹ new firms will be entering the industry. This increased supply will tend to depress prices and eliminate the excess profits and we can conceptualize an 'equilibrium' price that is socially efficient¹⁰ where supply just balances demand.

It is important to appreciate that, in a market situation, the demand for a good or service is measured by the amount that consumers are willing to purchase, and have the ability to purchase, at a given price. The stipulation that the consumer must be able to pay for the good distinguishes effective demand from need. Farmers may need hybrid seed to increase yield but if they cannot afford it, there is no effective demand for this.

When buyers pay sellers for a good or service, they are in effect exchanging property rights or entitlements. The nature of these entitlements differs according to the type of property right associated with the service being transacted. Private rights in a service means that the particular person concerned and no one else has the authority to decide how the resource should be used. If a private property right is ill-defined, some of the entitlement will be in the 'public domain' and not under the control of the 'owner'. This will reduce the price that a buyer would be willing to pay for the service, or even make it impossible to sell. To be truly effective it is essential for this right to be backed up with the force of law so as to establish a clear legal entitlement to the right.

Government Fiscal Arrangements

Government agencies set up to deliver agricultural services are often monopolies and the services they supply are frequently subsidized or free to the consumer. There is often little control over the agencies' costs. Government budget deficits resulting from increasing costs of subsidies had had led to the call for reform, including the decentralization of government activities. This implies, *inter alia*, the need for clarification, or revision of the fiscal arrangements for services being decentralized.

Decentralization can have profound effects on central government control of the financial aspects of the economy and, through this, on the performance of the whole economy. In many countries the effectiveness of decentralization is adversely affected by weaknesses in revenue raising by local governments and transfer of resources from

⁹ Economic profits being defined as revenue in excess of the full (opportunity) cost of production.

¹⁰ This 'equilibrium' price is a socially efficient price in the sense that the benefit that the satisfaction-maximizing consumer derives from the last unit just equals the price paid for it (if benefits exceeded price the rational consumer would purchase more of the good). Equally, the price received by the profit-maximizing producer will just equal the extra costs to the producer (and to society if there are no externalities) of producing that last unit, otherwise increases or decreases in production are justified.

the central government. In many instances, transfer of functions has not been commensurate with transfer of resources, leading to deterioration in services. Various forms of decentralization can have different implications for fiscal arrangements as follows:

Deconcentration: This generally involves only a change in procedures for budgeting and release of funds within a unitary administration. The officer in charge of the deconcentrated unit (e.g. the chief district agricultural officer), becomes an accounting officer in his own right. He reports hierarchically to the central ministry, and prepares the district work programme and annual budget for approval. Administrative efficiency may be improved, since the number of operations involved in authorizing, certifying, and making payments could be drastically reduced.

Moreover, deconcentrated offices, including those of the Treasury sub-accountants, are smaller and the number of transactions much less at district level. However, efficiency gains are actually achieved only if the local level is adequately staffed with trained accountants and funds are indeed released by Treasury in accordance with the vote. In many developing countries these conditions are not always met.

Delegation: This may be done through: contractual relations between the central government and an independent agent (private, voluntary or public); establishing autonomous agencies; creation of a public enterprise; or even partnership with civil society organizations, like NGOs. A range of financial arrangements are implied, all of which involve changes in the sources and flow of fiscal resources between government levels or from government to non-government organizations, as follows:

Contractual relationship: The agent is required to perform a specific public function, or to supply a set of specified goods and services, in exchange for an agreed sum of money. The Treasury transfers funds to them on the basis of procedures agreed within the framework of the contractual agreements.

Autonomous agencies: such as research institutes or an irrigation agency. These agencies have a separate budget and a separate administration, but their financial procedures are often those of a government department. The budget is approved in the same way, and the release of funds is through the Treasury. They are normally authorized to retain their appropriations-in-aid.

Public enterprises: for example a national water supply or a power company. These are commercial operations selling goods and services and retain the income from such sales. The central government makes a payment to establish the equity capital of the company, guarantees its borrowing from the capital market, and often undertakes to refund part of the expenditure incurred in providing the services by way of subsidies approved under the budget vote.

Partnerships with CSOs These are not subject to the same financial control requirements since the central government is under no obligation to honour their financial commitments, except for disbursing the funds granted to the CSOs under

contractual arrangements. Nonetheless, managers of CSOs are subject to the legal consequences of any unsound financial practices like all managers of private enterprises.

Devolution: This is synonymous with fiscal decentralization to local governments, and involves significant changes to procedures. It affects revenue as well as the expenditure side of the budget. This requires design of instruments for transfer of central government financial resources to decentralized organizations; new procedures to make use of these resources; and a system of controls over their use. Most far-reaching change to procedures is the relaxing of the principle of unified consolidated current account (whereby budget votes are released centrally to government agencies). Each local government then handles its own financial transactions independently, under the supervision of the Treasury. Local governments are given the authority to:

- raise fiscal revenue through local taxes;
- in some cases borrow from the capital market;
- retain their own collected fiscal and non-fiscal revenue;
- retain the grants and loans part of their appropriations-in-aid, to which private donations may be added.

The main sources of revenue for local governments include licences and other fees, stamp duties, fines, road tolls, and charges for services rendered such as water and power supply in urban areas. However, very few local governments in rural areas manage to raise significant amounts relative to the cost of discharging their responsibilities. Reasons include the poor tax base; resistance of sceptical potential tax payers; and local politicians reluctant to take unpopular measures. There may also be the perception that the 'rich' central government should take care of the need of the 'poor' local administrations. Because these complex factors take time to change, growth of local revenue tends to be generally slow, with continued dependence by many local governments on fiscal transfers from the central government.

Cost recovery and pricing regime

An important rationale for, and/ or consequences of, decentralization may be the removal or reduction of the subsidy element from the services being provided. This involves the establishment of an appropriate pricing regime. But if the government has been a monopoly supplier there is no guide from other existing firms in establishing this price. Nor has there been the discipline of new firms entering the market if the price was sufficiently high to generate economic profits. This makes it difficult to know what price to set for the service.

If the intention is that the service should be placed on a financially sustainable basis and consumers of the service should not be subsidized by, or subsidize, taxpayers then the 'full average cost pricing principle' would seem appropriate¹¹. In principle, this would

¹¹ Strictly speaking, a socially efficient pricing system requires price to be equated with full **marginal** cost. The full average cost is a socially efficient price if marginal (social) cost is also equal to average cost and hence price. However, in situations such as natural monopolies this is not the case and setting price at marginal cost would result in financial losses.

require the supplier to estimate the full replacement costs of providing the service and then to set a price per unit, so that over an appropriate time period these costs were just met. In this way sufficient revenues would be generated to sustain the service even when the fixed resources and infrastructure needed replacing.

There are however practical problems of implementing the full cost principle. How should costs of resources used to provide a service be estimated¹²? What costs are to be allocated to a particular service, if an agency is providing several services? What is to prevent the costs, and hence price, being inflated by unnecessary expenditures? What is the level of effective demand and how sensitive is demand to price? Although these issues appear complex, private sector companies deal with all them in their day-to-day business. How well they do so determines whether they succeed or fail. The same should apply if sustainable unsubsidized pricing systems are to be established for agricultural services during the reform process.

In the absence of guidelines provided by market forces there are sound reasons for agencies to adopt an incremental, or step-by-step, approach to cost recovery measures. This would enable:

- Farmers to adjust to paying for services that were previously provided free or at low cost.
- The government agency to establish how much it actually costs to provide the service.

In practice, there may be historical reasons why government agencies have generally not applied this full cost pricing principle. Subsidized services had frequently been based on 'merit goods' or 'redistribution of income' grounds. If provision of these services is decentralized, the basis of subsidization are likely to be re-examined. The new fiscal arrangements are likely to make the costs of the subsidies more transparent.

Moreover, social as well as political priorities may be different to those at central government level, particularly with devolution to local government. Central government may then have to provide an appropriate inter-governmental financial transfer to local governments or other agencies responsible for service provision if it wishes these subsidies to continue. It may also need to review its own priorities, as the costs of subsidizing services become more transparent.

b) Who should produce?

Given the ability to disaggregate the components of provision, central government has a choice of: continuing to produce a service itself; passing this function to other levels of governance during decentralization; or contracting or outsourcing to external service providers. The principles of subsidiarity and specialization, explained in the EASYPol

¹² A profit maximizing company uses the concept of 'opportunity' cost, that is, what a resource could earn in its best alternative use. In this way a rate of return on capital can be built into cost calculations. An appropriate risk premium is similarly built into costs. Are these approaches appropriate for a government?

Module 012¹³, have important implications for these choices. Two sets of factors help determine the optimal level of governance for production, namely that of economies of size in the production process; and/or significant variations in local demand.

Economies of size: If there are substantial economies of size in production, relative to the size of the market, this will tend to reduce the extent to which decentralization of production is economically desirable. However, this is an empirical issue, and one that needs to be investigated in each situation. As an example, while it may be appropriate for a large, rich country to devolve most powers and functions associated with, say, agricultural research to the provincial government level, this might be entirely inappropriate for a small, poor country. For some small countries the reverse might in fact be the case, and they should be seeking collaboration with neighbouring countries to solve common research problems.

Even within the production area, further disaggregation into different functions is often feasible. It may be possible to decentralize certain functions, such as day-to-day operations and maintenance while the capital infrastructure remains centralized. It is also important to question arguments relating to the importance of economies of size on the following grounds:

- The constituency responsible for the existing arrangements may be exaggerating the importance of economies of size because they are enjoying the benefits of a monopoly situation with unnecessary costs and expenditures and the absence of competition.
- Modern technologies can often operate on a smaller scale than older technologies.
- Increased competition often squeezes out unnecessary expenditure and organizational slack, and hastens the search for productivity enhancing technologies.

Variations in Local demand: One of the claimed benefits for devolution is the ability of locally elected officials to identify and respond to local needs. These advantages also apply to developing partnerships with CSOs to meet local needs. On the other hand there are often claims that local organizations have insufficient capacity to produce services effectively. Opponents of devolution may use this argument in attempts to avoid losing positions of influence and power. Instead they will favour deconcentration measures. However, in developing countries, local units of the central government are also plagued with very low capacity problems. There may be competition for limited capacity-building resources between those who wish to strengthen deconcentrated central government units and those who wish to strengthen local government administrations. In either case, limitations in capacity are a central issue regardless of the form of decentralization pursued.

Contracting Out: Besides reassignment of responsibilities between government levels, contracting out are another option to consider. Any organization responsible for providing services must have access to appropriate administrative skills regarding legal, personnel, procurement, and financial matters. It is conceivable that at least some of

¹³ EASYPol Module 012: [Decentralized and Development in Agriculture: An Overview](#).

these skills can be obtained from external professional service providers e.g. recruiting private professionals on a job-by-job basis to assist with these functions.

An important advantage of contracting out is that the discipline of private sector incentive systems - the ability to reward good performance and penalize poor performance - can be brought into play. However, various factors will have to be weighed up. Private professionals normally want to be paid higher rates than public servants. Employment of private professionals may result in higher administration costs. Moreover, it is still necessary to control contracted out services, and internal management must establish what is the minimum of administrative skill that an organization must retain to be able to do this.

Technical skills are less necessary in decentralized organizations because technical know-how lends itself more easily to external recruitment practices than administration skills. Local governments and CSOs may contract out construction and maintenance and, sometimes, even the operation of service facilities in areas such as water supplies, irrigation and rural roads. Leaders of interest groups at community level can also be trained to acquire the skills necessary to run their own sponsored projects, which are normally of a size and complexity within reach of the proponents.

There are, however, instances where it may prove difficult to assign production of services to the private sector. One problem relates to regulation and supervision issues, discussed below. Another is the difficulty of drawing up appropriate contracts with the private sector. Risk and uncertainty may make the private sector unwilling or unable to provide a service, leading to an incomplete market. Obtaining adequate information to determine a fair rate of return to the organization, or to draw up a contract that takes account of all possible eventualities, can be extremely complex. Here it may be cheaper for the government to continue to provide the service itself.

c) Who should regulate?

All economic transactions have to be governed by some set of rules and regulations that define the conditions under which trade and exchange can take place. For example, it would be very difficult and risky to purchase goods and services if property rights defining their ownership were not clearly specified. Rules of the game in society or 'institutions' are thus necessary to reduce uncertainty by establishing a stable structure for human interactions and economic transactions. Regulations can also help contain the excesses of opportunistic behaviour that can arise from asymmetric information.

Institutions or rules may be of a formal or informal nature (Box 4 offers an economic definition and how it differs from 'organization'). Examples of formal rules are laws, statutes, international agreements and contracts; informal rules include social conventions and codes of behaviour. Laws, rules and regulations generally have the characteristics of public goods: they are non excludable and use by one cannot preclude use by others. Working rules may, or may not, closely resemble formal laws as found in national legislation or administrative regulations. A system that is governed by 'rule of law' is one in which formal laws and working rules are closely aligned and enforced.

Box 4 - Some Definitions of Institutions and Organizations

Institutions:

The rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction. In consequence they structure incentives in human exchange, whether political, social, or economic'. (North , 1990).

A public system of rules that define the kinds of exchanges that can occur among individuals and that structure their incentives in exchange. Economic institutions include markets and property rights, systems of land and animal tenure, obligations of mutual insurance within lineage groups, and other systems of exchange that are determined by implicit contracts or social norms' (Hoff et al, 1993).

The set of rules actually used (the working rules or rules-in-use) by a set of individuals to organise repetitive activities that produce outcomes affecting those individuals and potentially affecting others' . Working rules are those actually used, monitored and enforced when individuals or groups make choices about their actions. (Ostrom, 1992).

Organizations:

Groups of individuals bound by some common purpose to achieve specific objectives. There are, however, close interactions between institutions and organizations because the types of organizations that evolve are strongly influenced by the institutions that exist Thus, a limited liability company, could not exist without supporting legislation or 'institutions'. But equally, the organizations in existence influence how the institutional framework develops.

However, there are numerous instances where working rules may assign de facto rights and duties that are contrary to the de jure rights and duties of a formal legal system. For instance, although it may be illegal to offer bribes for delivery of irrigation services, in some areas this may be an accepted norm among local people and most officials alike. To discover what working rules are in use may require patient and long-term observation - the 'rapid rural appraisal' approach is unlikely to work here.

Decentralization may bring about the need for new institutional arrangements to govern those aspects of provision that are decentralized. The principle of subsidiarity applies equally well to the regulatory function as to the other components of provision. The power to set and monitor rules and regulations can be retained by central government, or delegated or devolved to lower levels of governance. Self regulation by organizations or groups of organizations in the private and voluntary sectors may also be an option. Central government may want to retain a regulatory role where it wishes to see a specific policy or standard of service implemented over the entire country or where it is playing a major role in financing a service.

But deciding on who should regulate is not straightforward. Difficulties with government regulation arise due to the following:

The regulatory burden. There is often greater need for supervision and monitoring with decentralization. This applies whether central government delegates functions to other public agencies, or when services are contracted out to the private sector. The regulatory burden is likely to increase as the private sector assumes more responsibility. Regulation can be effective only where there is strong governance. Paradoxically, where governance is weak it may be more appropriate for the government to continue to provide those goods or services where provision cannot be left to the market mechanisms.

High information costs. Those being regulated often hold much of the information required, rather than the regulators. In other words, there is an asymmetry in information. When this is severe, ‘capture’ of the regulators can occur, with those being regulated manipulating the information supplied to suit their own ends. Again, this is likely to be more of a problem where governance is weak, and is another factor that has to be carefully considered when deciding whether, and/or how, decentralization of services should occur.

Inflexible markets. Highly regulated markets also tend to become inflexible for a number of reasons. Vested interests may wish to keep the regulations in their initial form, regardless of changing economic circumstances. This stems from ‘rent-seeking’ activities by (i.e. the use of resources to try gain control over artificially created monopoly situations) of those in privileged positions. Regulations imposed by central government generally set common rules are for the whole country regardless of local circumstances. When economic conditions change there may be no cheap and easy method of modifying the regulations.

Parallel markets. Where governments try to regulate too rigorously, the result may be a transfer of activity from the formal, regulated economy to the illegal, unregulated parallel market. This will occur when the costs of compliance outweigh the risks of operating illegally. If this occurs generally it may ultimately undermine the government’s authority and credibility. Thus governments should have an incentive to restrict their regulation to areas where they can hope for a credible degree of enforcement.

Possible solutions to the above include encourage a more decentralized regulatory system with greater autonomy and flexibility to accommodate local conditions. However, regulators at the local level will need to have sufficient powers and credibility to enforce the regulations. Moreover, an issue that has to be considered is who is going to finance the regulatory functions after decentralization.

While central government may wish to pass the responsibility of regulation to local government, the local authorities may find it difficult to finance the regulatory functions and some form of IGFT may have to be organized. On the other hand, many services that initially appear to be public goods at the national level, can assume the characteristics of ‘club’ goods (say a cattle dip or village health centre) at the local level¹⁴. In these circumstances it becomes easier to recover the costs of regulation from

¹⁴ Club goods are those which are excludable, but non-rivalrous, that is where its use by one does not preclude use by others.

those being regulated, or to encourage them to partially or wholly self-regulate their activities.

4.4 Challenges and risks of diversity in provision

The diversification of the sources of service delivery offers many advantages. It helps the testing of different approaches, increases the amount of resources and multiplies experiences and opportunities. However, it may often be a source of disparity of treatment, duplication of efforts and sometimes even of conflicts. In some cases, different systems of incentives are introduced in the same area. Some of these may handicap sustainable development and efficient allocation of resources.

One example would be government banks or NGOs extending credit at subsidized interest rates, whilst mutual credit union networks attempt to introduce financially sustainable savings and loans associations. Another example would be when government constructs and maintains water supply facilities without recovering costs, whereas CSOs require upfront contributions from beneficiaries, who have to maintain the facilities themselves.

Central government, local governments, and CSOs may agree on goals, but disagree on priorities and strategies. This should not be an issue when provision is deconcentrated or delegated because, in theory, the central government is firmly in control. The problem emerges with devolution and partnerships. How should central government administrations deal with a variety of different priority rankings by local governments and CSOs claiming public support for their initiatives? What happens if local priority rankings differ from those of central government established under a development plan?

Central governments can handle these problems in several ways by:

- Introducing devolution gradually by giving membership in the elected local government assemblies to officers of deconcentrated units of the public administration, who can influence decisions.
- Transferring the appropriate priority functions outside the public administration to CSOs.
- Retaining the management of priority programmes under central control while deconcentrating or delegating the production or delivery functions.
- Introducing conditionalities in the inter-governmental fiscal transfer (IGFT).

In principle, there is need for good communication and substantive negotiation between stakeholders at the various levels if damaging conflicts are to be avoided. Skills in these areas are unfortunately often lacking within public sector agencies. These issues are discussed further in other modules of the training path.

5 PLANNING AND IMPLEMENTATION OF DECENTRALIZATION

A systematic approach to planning and implementation of the entire decentralization process is called for. Good planning practice dictates that there be clarity as to the overall development objective of the reforms being considered. First, the case for reform would need to be established on rational and defensible grounds. This should be supported by an assessment of the broad options available for achieving the stated objective, including the 'no reform' scenario. Institutional and organizational requirements, including securing of political commitment, would then need to be assessed. The main steps and issues involved and practical issues which need to be addressed are discussed below.

5.1 Establishing the case for reform

The reform process should be guided by well-defined objectives of what it is intended to achieve. If reform or decentralization is a reaction to a fiscal crisis e.g. public sector enterprise expenditures far exceeding revenues, it is not surprising that often only short-term objectives such as the reduction of the fiscal deficit are considered. However, reform presents an opportunity to restructure enterprises or the whole economy in ways that could help achieve long-term objectives (e.g. sustained economic growth or improved rural livelihoods). These opportunities may be missed if only a 'crisis management' approach limited to short-term objectives is adopted.

As indicated earlier, public sector organizations may have been established to provide a wide array of agricultural services for various economic, social and political reasons. Reasons that may emerge over time to justify reforms include:

The original reasons are no longer valid. For example, a centralized parastatal may have been set up because no private entrepreneurs were willing to undertake a particular activity, but over the years that situation may have changed.

Other instruments are now available for the provision of the service or for achieving a particular objective that are likely to be more cost-effective. For example, variations in local demands or needs for services may favour a decentralized delivery system. Disaggregation of provision into its funding, production, regulation and consumption components is of importance here.

Even if the objectives remain unaltered and instruments remain unchanged, reform and/or decentralization of the parastatal may lead to a more cost-effective delivery of its objectives.

If none of these basic reasons apply then there seems little point in considering reforms any further. The first step in the process is thus to establish:

- Whether the need for the services that the central government provides still exists.
- What the costs incurred in providing these services are.
- Whether more cost-effective methods of providing these services exist or can be created.

5.2 Review of options

The review of the broad options available for decentralization should include the possibility that improvements, without major reform, could be made to internal efficiencies of the existing centralized agency. But regardless of this possibility, the quality of the market environment is critical to its performance as well as other organizational forms that may emerge out of the reform. It is thus important to examine both these aspects as part of the review of options. To the extent that reforms are considered necessary, options as to organizational or institutional changes that could be made would then need to be assessed.

Improving the internal efficiency

The first logical step in determining ways of achieving a more cost-effective service is to examine whether the internal efficiency of the centralized service provider can be reformed. This will help to determine whether it should be liquidated or decentralized in some form. Main avenues for improving internal efficiency of an organization include:

- introducing hard budgets (see Box 5);
- changing the incentive structure and regulatory framework; and
- investing in new capital or training.

Each of these are not without their practical difficulties and drawbacks. Nevertheless, only by first exhausting these and other possible sources of internal improvement could a credible and solid case be made for more drastic reforms.

Box 5 - Introducing A Hard Budget

A 'hard' budget implies that the organization:

- Receives no subsidies, transfers or special privileges, such as tax exemptions, procurement set asides or favourable access to foreign exchange, and must pay its bills or debts on time
- Has its access to credit decided by independent banks on the basis of commercial principles without government guarantee, and on market determined terms
- Has its prices set by the market or, for monopolies, through regulations which approximate economic prices so that the organization does not earn monopoly rents.

One intention in attempting to introduce hard budgets for public sector agricultural support service providers is to make the explicit and implicit subsidies provided through the organization more transparent.

Improving the market environment

Regardless of the improvements that can be made to the internal efficiency of an organization, a key factor determining its effectiveness will be the potential and actual competition it faces. Of critical importance is presence of an enabling economic and political environment, supported by a consistent policy framework. Particularly important are institutions like:

- a well-defined legal code;
- an accessible legal system;
- legal provisions against anti-competitive practices;
- the right balance between central and locally defined regulatory functions; and
- a level playing field for private and public sectors to compete on an equal footing.

Adopting a positive attitude towards private sector participation and growth within the existing bureaucracy would also be helpful. Important to the reform process is increased competition, potential and actual, faced by organizations supplying agricultural services. Addressing the sources of market failure is thus germane to improving the performance of any service organization, whether existing or newly constituted under the reform. Opportunities for doing so would need to be explored.

Institutional and organizational options

The precise form that decentralized service provision should take is largely an empirical question. It depends on the specific context under which reforms are being considered, and the type of agricultural service concerned. A range of economic, political and administrative factors need to be taken into account, and a judgement made as to the relative importance and inter-play of these when considering reform options. Application of the key principles, that of subsidiarity, jurisdictional spillover, and specialization of function, (see module “Decentralized Development in Agriculture”), would need to be accompanied by an examination of the context in which reforms are being planned.

A number of general criteria relating to both the output of a service function and the actors and organizations themselves may be used in framing the contextual questions:

Legitimacy: What is the nature of the output of the function? Should it be retained in the public sector or decentralized to the voluntary or private sector? What is the legal origin of the entitlement to perform the function? What guarantees that the interests of ultimate users are taken into account? If the function is retained in the public sector, can it be equally well performed at a lower administrative level?

Accountability: Is the actor accountable for performance? To whom? Are ultimate users among those? Are effective users’ participation and accountability mechanisms established? Are they enforced or enforceable?

Competence: Does the actor have the required technical and administrative skills? Or the resources/willingness to acquire such skills? Are adequate training programmes envisaged to develop such skills for all actors in their respective domains?

Financial sustainability: What sources of finance are available to actors competing to take over responsibility to perform a function? Can the actor mobilize sufficient resources to guarantee that adequate services are supplied on a sustainable basis? If the private sector is unwilling to mobilize the resources, should government provide finance, rather than produce and deliver the service?

Within the ambit of long term development objectives, achieving a level of service provision that is responsive, effective, efficient and sustainable should remain the core criteria. However, a thorough examination of the practical feasibility of each option (ranging from deconcentration to privatization), resources needed for implementation, and possible constraints (financial, human resource and institutional) is also essential. For general guidance, a checklist of practical issues to be considered (which could be expanded upon, depending on local circumstances) would include:

- The extent to which central government would be prepared to relinquish (or maintain) control over some or all of the components of provision.
- The existence of agencies or organisations at government, private sector, and community levels that could assume all or some of the responsibilities relating to service provision, or is there need to create new structures and institutions.
- The level of technical and administrative capacity available to cope with the changed responsibilities, and the need for training and capacity development.
- Will staffing need to be increased or retrenched/ relocated at the various levels, and are there financial and administrative arrangements available to permit these?
- The adequacy of existing administrative and financial procedures or guidelines for managing financial transfers between central and local governments, and for cost recovery where applicable.
- Existence of areas of potential conflicts between central government staff and local service providers, and how these could be minimized or managed.

5.3 Political commitment: and over-arching view

Virtually any reform is likely to involve losers as well as gainers, hence a prerequisite for any successful reform is commitment at the highest political level to take the necessary steps to initiate, implement and maintain the reform process. From a political viewpoint, centralized service providers are seen in many countries as an important means of retaining control of strategic areas of the economy, or particular functions. In others, they are seen as valuable instruments for dispensing political patronage. But there can be opponents as well as proponents: the former include those who feel they may lose their present privileges with decentralization; the reverse is true of the latter.

In general, political desirability, feasibility, and credibility are necessary political conditions for successful reform:

- It must be politically desirable to the leadership, in that political benefits must outweigh the political costs.
- It has to be politically feasible in the sense that the leadership can obtain the support of other government bodies (the legislature, civil service, state or provincial levels of government) whose cooperation is critical to success.
- The government also needs to achieve political credibility regarding the reform process, especially when the proposed reforms envisage a series of operations extending over a significant time period.

- There is always a risk that individual sponsoring ministries, given possible vested interests, may opt for the status quo, arguing for the continuation of the current system. Most countries that have had successful decentralization and privatization reform programmes have found it advisable to establish some form of central authority to oversee the process, such as a high level supra-ministerial reform commission.

This permits adoption of a wide perspective of development goals, transcending sector and sub-sector interests. Such a commission must have sufficient independence, influence, authority and political clout over individual ministries or government departments, to see the decentralization process through to conclusion. It should also possess the analytical capabilities to identify and examine important technical and administrative issues.

5.4 The pace and phasing of reforms

The decentralization process is an exercise which often requires time and sustained effort to accomplish. To ensure effective implementation of the reform, decisions have to be made as to the pace at which to proceed, the main steps to be taken, and important milestones that will have to be reached within a definite timeframe. What constitutes an appropriate pace is very much a matter of judgement. Two main scenarios are that of a gradualist approach to permit smooth transition, or a 'big bang' approach to obviate vested interest derailing the process over time. Both have their advantages and drawbacks. Important general considerations include:

The capacity of the government at various levels to operationalize and manage the reform. This is important, given the many technical, administrative and legal matters to resolve. Some of these can be very management intensive. Others may require securing acceptance and cooperation of politicians and bureaucrats, with a view to engendering the appropriate internal or external coalitions.

The strength of the private and voluntary sectors to take up functions previously performed by the government. The presence or absence of a competitive market, including status of the market infrastructure is an important factor here. Ensuring there is a 'level playing field' for the decentralized services is a prerequisite to their long term viability.

The type and complexity of financing and contractual arrangements needed. Be this in relation to inter-governmental financial transfers (i.e. devolution) or through privatization and partnerships, failure to adequately take into account issues of finance can lead to poor or mediocre results. Ability of the private sector, especially small and medium sized organizations, to compete in the market place also depends on access to finance on terms no less favourable than as those available to public sector service providers.

The adoption of a phased approach is generally recommended. Following securing of political commitment to the process, effort should first be directed at improving the internal efficiency of existing service providers (such as by introducing 'hard budgets'), and the overall market environment (liberalizing trade and reducing entry barriers).

Encouraging private and voluntary sectors to participate in the service provision of a 'private goods' nature, rather than 'public or merit goods', should be considered. This may require introduction of an initial pilot phase, involving facilitation individuals or organizations within rural society in undertaking service provision functions. This approach has successfully tried in provision of mechanization services, maintenance of tubewells, and in informal quality seed multiplication in various countries.

5.5 Monitoring effectiveness

There is often inadequate attention paid to monitoring and following up on the reform process once it has started. One danger is that over time, under-achievement in some implementation aspects may impede the process, and reduce its overall momentum. Another is that, given the learning curve involved, lack of feedback as to what worked or did not work may mean that mistakes may go un-noticed and unremedied, to the detriment of the entire process.

Provision for routine monitoring of the main activities and major milestones to be achieved, and feedback as to their outcomes relating to the overall objectives of the decentralization are essential. It is rare that the entity responsible for administering the reform process (i.e. reform commission, ministry, or committee) would have the adequate capacity for this. The contracting out of this function to competent organizations or individuals or strengthening of existing capacities within key institutions as a management tool for decision makers are options that might be considered.

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4. Summary

This module focuses on the economic dimension of the environment. It revisits the issue of resource scarcity and its link with the concept of economic welfare, highlighted in the module "Environment in Decentralized Decision Making". Factors which lead to misestimation of environmental values, both from market and policy failures are next discussed, and the concept of total economic value, inclusive of various use and non-use environmental values, explained. The methodological approaches to valuation of environmental goods and services, based on the underlying concept of willingness to pay or accept are then outlined.

Valuation techniques both with and without complete markets for goods and services are discussed; a brief description of the main techniques available are provided in the appendix. Special attention is given to the situation where markets are absent. This is because analysis using market prices is more readily catered for by conventional tools, such as cost-benefit and cost effectiveness analyses, whereas environmental goods and services, which tend to be public goods, lack market prices, and pose additional conceptual and practical challenges.

The importance of integrating economic rationale into environmental decisions at the decentralized level, along with non-economic criteria, and the need to address capacity and institutional constraints at the local level are next discussed, and their policy implications reviewed.

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7. Module type

- Thematic overview
- Conceptual and technical materials
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8. Topic covered by the module

- Agriculture in the macroeconomic context
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- Environment and sustainability
- Institutional and organizational development
- Investment planning and policies
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- Rural Development

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[Decentralization and agricultural development](#)

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