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*Article*

# The Paradox of SOE Decentralisation: Evidence from Post-Colonial States

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**Abstract:** This paper examines the paradoxical outcomes of state-owned enterprise (SOE) decentralization in post-colonial states, challenging the conventional wisdom that links decentralization with improved efficiency and democratic governance. Drawing on evidence from Africa, Latin America, and Eastern Europe, we demonstrate that the transfer of SOE responsibilities to subnational governments has largely failed to deliver its promised benefits. The analysis reveals that subnational SOEs consistently underperform their national counterparts due to several structural impediments: insufficient economies of scale, inability to attract and retain qualified personnel, limited capacity for research and development, and increased vulnerability to local corruption networks. While decentralization theory, developed in Western democratic contexts, suggests that local control enhances service delivery and accountability, empirical evidence from developing nations indicates otherwise. The paper finds that national-level SOEs generally maintain superior technical capabilities and operational efficiency compared to their subnational counterparts. These findings necessitate a fundamental reassessment of decentralization as a governance reform strategy, particularly in contexts where institutional capacity and professional expertise are concentrated at the national level. The study contributes to our understanding of how varying governmental control structures influence SOE operations and outcomes in post-colonial states.

**Keywords:** State owned enterprises; SOE; supply efficiency; public enterprises

## Introduction

The discourse surrounding state ownership in enterprise studies has traditionally adopted a binary perspective, failing to account for the nuanced distinctions between different governmental levels of ownership. This oversimplification has created a significant analytical gap in understanding how varying governmental control structures influence state-owned enterprise (SOE) operations and outcomes. The contemporary academic landscape faces increasing complexity in delineating and examining the disparate characteristics of nationally and locally controlled SOEs, particularly as governance structures evolve globally. The conventional wisdom suggesting a correlation between democratic systems and decentralisation requires critical examination. Historical examples challenge this assumption, as evidenced by the former Socialist Republic of Yugoslavia's highly decentralised structure in contrast to France's more centralised governance model. As democratic principles proliferate worldwide, a more nuanced analysis of SOE governance across different administrative levels becomes imperative.

The fundamental distinctions between SOEs and private enterprises extend beyond mere ownership structures to encompass operational philosophies, financial management practices, and human resource policies. SOEs typically operate under dual pressures: the imperative to maintain operational efficiency despite political intervention, and the mandate to pursue public welfare objectives that may conflict with profit maximisation. This tension manifests distinctively across different governmental levels. The post-colonial context provides particularly instructive insights

into SOE objectives. Newly independent nations prioritised economic development and basic needs provision through their SOEs, establishing clear public policy directives. This focused approach preceded the contemporary discourse dominated by concepts such as entitlements, capabilities, functionings, and empowerment – terms that, while valuable, have potentially diffused the clarity of developmental objectives.

The current emphasis on decentralisation presents complex challenges for public administration scholars and practitioners engaged in poverty alleviation efforts. The fundamental question of responsibility for basic needs provision remains contentious, with multiple potential agents: market mechanisms, various governmental tiers (national, regional, or local), parastatals at different levels, or alternative arrangements. This multiplication of potential responsible parties necessitates careful analysis of institutional capacity, accountability mechanisms, and effectiveness at each level.

The evolution of SOE governance structures reflects broader changes in public administration theory and practice. Contemporary analysis must consider how different governmental levels affect SOE performance, public service delivery, and achievement of social objectives. This necessitates examining variations in political oversight, operational autonomy, and stakeholder engagement across national and subnational SOEs. The intersection of decentralisation trends with SOE governance raises important questions about institutional design and policy implementation. Scholars must consider how different governmental levels can effectively balance commercial viability with public service obligations, particularly in contexts where resource constraints and institutional capacity vary significantly across administrative tiers.

This complex landscape demands a more sophisticated analytical framework that can accommodate the varied manifestations of state ownership and control across different governmental levels. Such a framework must consider not only formal ownership structures but also the informal institutional arrangements, political dynamics, and administrative capabilities that shape SOE performance and public service delivery outcomes.

## Decentralisation

With the centralised state losing legitimacy after the fall of the USSR, suddenly decentralisation seemed to be the latest fashion in the matters of governance in general including ownership of SOEs. The potential benefits of decentralisation attracted all kinds of supporters under its large tent including free-market economists with suspicion of the SOEs to those who believe in pervasiveness of market failure including anarcho-communitarians like postmodernists, multiculturalists, environmentalists and activists for various causes. This sudden love for decentralisation can be attributed to the fact that decentralisation appeared to be crucial to the dual political transition that in the 1990's had become imperative for the developing and post-communist world: promotion of institutions to bring efficiency to the market and bolstering fledgling democratic experiments. The World Bank embraced decentralisation as a major governance reform on its agenda. International agencies have not hesitated in including decentralisation as conditionality in their projects.

The reality of decentralisation turned out to be quite different from that imagined by its advocates. Under the rubric of decentralisation, steps were taken which satisfied a political agenda to the detriment of public administration:

1. In much of Africa, local governments were created but given neither power nor responsibility for SOEs. This move is often explained as an attempt by bankrupt central governments to create a new target for political dissatisfaction without relinquishing real power.
2. In the middle income countries of Latin America, central governments have transferred resources and responsibilities for some SOEs to the sub-national governments. This arrangement has been explained as an attempt to 'buy off' a growing number of disaffected local political constituents.
3. In the Eastern Europe, inefficient SOEs have been given over to sub-national governments; a move explained as a hasty effort by newly victorious political forces to consolidate their

positions at the local level, complimented by an effort by the central governments to 'push the deficit down'.

Inevitably, this has meant a lot of back-tracking and many false starts, especially in Latin America, which does not have low average incomes, but continues to be the most unequal region in the world. Countries like Perú have become examples of how not to reorganise SOEs. Decentralisation literature usually recommends the transfer of powers and responsibilities from the national to sub-national governments. Political arguments in favour of such transfer are strong as militaristic dictatorial regimes tend to centralise power. However, this is a simplistic view. Often military dictatorships and other autocrats have devolved powers to local governments. This in turn weakens regional governments, incapacitating them to pose any challenge to the central leadership. In Pakistan whenever the Military takes power, attempt is made to increase decentralisation at district level.

Decentralisation is also viewed as a mechanism for controlling the size of the public sector. From this perspective, government sector is viewed as a Leviathan that seeks its own aggrandisement through maximising the extraction of tax revenues from the populace. Decentralisation places constraints on the Leviathan to channel resources to itself. In some international organisations pushing structural adjustment and transitional reform, decentralisation has often been used in the same breath as privatisation.

## Relevance of Fiscal Federalism

There is a large body of literature on decentralisation in public economics, often referred to as fiscal federalism. The theory of fiscal federalism has evolved in western democracies to understand the emerging fiscal problems created by progressive national integration of economic systems within a decentralised political structure. When the role of the government ceased to be merely protective, the 'social' state emerged and more government services became available to citizens to fulfil their needs, the discrepancies between the capacities and needs of the subordinate units of governments became glaring. This development caused some students to view the federal political structure as anachronistic and anti-democratic.

It has been argued that federal polity had outlived its usefulness and the conditions which made it necessary in the process of development no longer prevailed. But political centralisation was not desirable in view of the strong federal spirit prevailing in countries like the United States and Australia. The challenge was to formulate a theory and policy proposals that could integrate the economy presuming a political structure that was decentralised in the power sense. This theory contends that the decentralised levels of government have their *razón de ser* in provision of goods and services whose consumption is limited to their own jurisdiction directly or through SOEs.

Thus, the case for decentralisation is often based on allocative efficiency in public administration. Because tastes and preferences for public services vary among communities, welfare gains are achieved by decentralising decisions relating to SOEs to the level of government that best incorporates a community of common interests. Validity of this conclusion in a developing country situation is open to question. The traditional approach to development in political science, law and economics sees developing societies as incomplete versions of developed ones, lacking some essential ingredients of mature developed societies. Democrats, legal scholars and economists recommend that new institutions and policies be transplanted from developed societies into developing ones. Yet, the theories of fiscal federalism evolved in western democracies may have doubtful relevance to developing countries. As Diana Conyers warns most developing countries inherited relatively centralised systems of government from their colonial powers, and in the first years of independence there was often a tendency to strengthen central control in order to encourage national unity and discourage fissiparous tendencies. These countries have not experienced the process of evolution from the town hall up to the national government experienced in industrial countries. The implication of decentralisation from national governments to sub-national governments in developing countries must be evaluated in terms of specific circumstances of each country. The argument that the

inhabitants of different jurisdiction have different tastes is questionable in developing countries where basic needs, which are quite well known, are yet to be met.

## **Decentralisation of SOEs, Public Policy and Supply Efficiency**

Contrary to optimism shown by the World Bank, empirical studies show no improvement when SOEs are decentralised. Analysis of database of Ugandan health system and find that local government SOEs in the health sector are starved of funds as the local governments increasing expenditure towards publicly financed private goods. SOEs in developing countries need to be more efficient in terms of optimisation of limited resources as also more focussed on the public needs. For example, inefficiency and corruption in Food Corporation of India and State Civil Supplies Corporations has led to widespread malnutrition among the poor in India. While the standard decentralisation model says little about supply efficiency, the assumption is that as an organising principle, decentralisation brings the government closer to the people and makes the leadership accountable to the people thereby increasing efficiency. Few empirical studies are available with comparison of efficiency with robust statistical analysis. Most of the available studies show that the supply efficiency declining with decentralisation.

## **Reasons for Poor Performance of Sub-National SOEs**

One obvious reason for poor performance of sub-national the inevitable diseconomies of scale. Perhaps the even more important reason for inefficiency is the human factor. In terms of provision of water SOEs, the World Bank considered it as a desirable trend as it brings the level of responsibility closer to the user. Yet, even this protagonist of decentralisation noted that the water SOEs in more than 400 urban centres of less than 100,000 inhabitants in Perú do not have the economies of scale in operations, and are unable to offer attractive working conditions and vocational training to qualified personnel and to plan and run operations at a satisfactory level. Presciently, it predicted the next two or three years, it is likely that response capacity of the new sector will worsen. On the other hand, in case of Tunisia, the steady improvement occurred after centralisation of water and sanitation services to national level SOE due to streamlining of vocational training and formation of a competent cadre of technical professionals.

Technocrats in developing country SOEs are likely to operate quite far from technical production frontier; and it is likely that the sub-national level technocracy will be farther away. Technical and administrative services of national SOEs offer better careers, greater diversity of tasks and comparatively less political interference. They can invest in research and development, training and other measures of long term growth, something that the small sub-national SOEs cannot do. The professionals working with the local SOEs suffer from isolation and low level of interaction with other professionals. Local SOEs can neither attract the best talent nor acquire the technical skills of technocrats available to higher level SOEs.

Another reason for lower level of supply efficiency is high level of corruption in lower levels of governments. Decentralisation of corruption could be viewed as a desirable trend in that it may have redistributive effects. There is reason to believe that the level of corruption at the local level is much higher and offsets the probable beneficial redistributive effects of decentralisation of corruption. The local politicians and bureaucrats, the distinction between them is less rigorous, are likely to be more subject to pressing demands from local interest groups with whom they develop unethical relationships. They view their SOEs as a source of personal aggrandisement. Monitoring and auditing are lax at the local level and there are fewer obstacles to corruption.

## **Conclusion**

The evidence presented demonstrates that the decentralisation of state-owned enterprises in developing nations has largely failed to achieve its promised benefits of enhanced efficiency and improved public service delivery. The theoretical underpinnings of fiscal federalism, whilst



compelling in Western democratic contexts, have proven inadequate when applied to post-colonial states with fundamentally different institutional histories and developmental requirements. The empirical record suggests that subnational SOEs consistently underperform their national counterparts due to several structural impediments: insufficient economies of scale, inability to attract and retain qualified personnel, limited capacity for research and development, and heightened vulnerability to local corruption networks.

The presumed connection between decentralisation and democratic governance requires significant reconsideration, particularly given historical examples that challenge this association. The experience of SOE decentralisation in Africa, Latin America, and Eastern Europe reveals that such reforms often served political expedience rather than administrative efficiency. The transfer of SOE responsibilities to subnational governments frequently manifested as an abdication of central government obligations rather than genuine devolution of power. This pattern is particularly concerning in developing nations where basic needs provision remains a paramount challenge. The evidence suggests that national-level SOEs, despite their limitations, generally maintain superior technical capabilities and operational efficiency compared to their subnational counterparts. These findings necessitate a fundamental reassessment of decentralisation as a governance reform strategy, particularly in contexts where institutional capacity and professional expertise are concentrated at the national level.

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