

Fiscal Decentralisation

Fiscal Decentralisation: Neglected Challenges and Constraints

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Outline

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- **II. National and Intergovernmental Political Economy Dynamics**
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- **V. Subnational Political Dynamics and Accountability**
- **VI. Capacity and Leadership**
- **VII. Lack of Strategic Orientation/Implementation in Decentralisation and Fiscal Reform Programs**
- **VIII. Concluding Comments and Moving Forward**

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I. Understanding the Origins, Influences and Goals of Decentralisation

- Often—not always--originates in **response to crisis or major political change**: reform may then be reactive/rapid with inadequate political consensus
- Sometimes, especially in aid dependent countries, reform is at least partially imposed/influenced by **international development agencies**
- Often reform remains overly based on **textbook solutions** derived from social science approaches, such as local finance/fiscal federalism literature (discussed earlier)
- Some elements are commonly **borrowed from other countries** without necessary adaptation

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Variation in Starting Points in Different Contexts

- **Reinventing/strengthening** elected subnational governments where they already exist but have not been able to function effectively
- **Transforming** existing local administrative units into elected levels of government
- **Creating** sub-national administrations or governments where they have not existed
- In all cases the **balance of political power between central and subnational governments** helps to determine the trajectory of reform

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Goals of Decentralisation

- The **official goals of decentralisation**—as presented in national constitutions, laws and policy documents—are varied, but often include:
 - Improving **governance** and accountability
 - Enabling more **efficient/equitable** resource allocation
 - Supporting **economic development/poverty reduction**
 - Promoting **conflict resolution** and improving **stability**
- There may be **different priorities** across countries, and **various relationships** are posited among the goals

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II. National and Intergovernmental Political Economy Dynamics

- Fiscal decentralisation has deep **political as well as technical foundations**, some dealt with by Second Generation Fiscal Federalism
- As noted earlier, elementary political economy analysis of decentralisation frames “**political will**” as a simplistic construct that presumes the commitment of a unified government to traditional decentralisation goals and required supporting policies
- Although they may value stated developmental goals, politicians and bureaucrats support stronger subnational governments when **it serves their interests** (i.e. electoral goals, security of tenure, career trajectories, support coalitions, etc.)
- The **true reasons for pursuing decentralisation may or may not align well with the normative** fiscal or political justifications for it or implementation needs

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Post Reform Adoption Dynamics?

- Even strong (or apparently strong) **national political commitment is not sufficient**; robust constitutional/legal decentralisation frameworks may be incompletely designed and implemented or even undermined in practice due to political interference from legislatures
- **Intergovernmental political dynamics**: influential subnational governments may demand empowerment or the center/state may seek to please or marginalize subnational governments
- Political economy conditions can **change rapidly** in competitive political environments or as a result of emergency situations
- Powers and resources can be **officially or unofficially decentralized or recentralized** when an opposition party takes control or a new crisis emerges

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III. The Central/Regional Government Bureaucratic Environment

- Most of the national responsibility for **detailed design and implementation of decentralisation falls to administrators** rather than politicians
- Decentralisation, both general and fiscal, often takes place in **complex and “siloeed” (poorly coordinated) national bureaucratic environments**:
 - **Local government oversight ministries** (local government, interior, home affairs, etc.)
 - **Ministries/bodies/commissions with a government-wide mandate**: finance, planning, public service, etc.
 - **Special purpose ministries**: urban development, rural development, etc.
 - **Sectoral ministries and special bodies involved in service delivery** (education, health, transport, water, etc.).

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Cooperation or Competition?

- Higher level agencies may have very **different views of decentralisation and their role** in designing/managing it
- Individual agencies may **fail to comply with the mandates of decentralisation** if they see them as infringing on their own power
- Some agencies may withhold support for subnational government empowerment efforts **led by an agency seen as a rival or pursue conflicting policies**
- In some cases, **sectoral ministries adopt decentralisation programs that use special practices**, e.g. budgeting/planning procedures that are not in line with Ministry of Finance/Planning regulations

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Coherence of Intergovernmental System

- In some cases **key coordinating ministries use competing or incompatible practices, e.g.**
 - The Ministry of Finance and Ministry of Local Government issue inconsistent financial management regulations for subnational governments
 - The Ministry of Planning and the Ministry of Finance use incompatible approaches to allocating intergovernmental fiscal transfers
- **Sectoral ministries may also use different processes** that place great demands on subnational governments
- Such conflicting behavior by higher level bodies can **weaken subnational government autonomy and performance incentives**

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IV. The Role of International Donors

- **Historically there have not always strong international donor incentives to support genuine decentralisation**, which can be complex and delay projects and moving funds
- Self-coordination of donors and sectors can also **slow progress and diffuse the credit** for achievements
- There is often some persistent **donor mistrust of even central government capacity**
- Decentralisation/coordination complexities and client capacity concerns **influence decentralisation support project design and outcomes**

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Donor Incentives and Ministerial Priorities

- Different international donors (or their divisions) not uncommonly support individual government ministries with similar objectives for inconsistent reforms, **reinforcing the problematic dynamics and competitive behavior** of central agencies
- In some cases, **special units or funds with separate management and accountability channels** use systems and procedures that are inconsistent with or do not contribute to the emerging formal intergovernmental and subnational government system
- Together these behaviors can **slow or undermine the development of a coherent system**

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V. Subnational Political Dynamics and Accountability

- System design usually involves **at least two assumptions regarding local political behaviour**:
 - A **well conceived intergovernmental system provides** appropriate incentives to help **reduce non-democratic behavior** (patronage, clientelism etc.)
 - **Well designed local political mechanisms** are routinely used to help hold **subnational governments accountable to constituents**
- **How subnational governments use authority** depends on:
 - The **distribution of local political power**—economic elites, ethnic/religious groups, political parties, labor unions, civil society movements, etc.
 - The **relationship between local councilors and administrators** (horizontal accountability), and
 - The **resulting behavioural incentives faced by local politicians and bureaucrats**

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Subnational Elections

- Much of the attention to subnational political mechanisms has been focused on the need for **fair, credible and competitive elections**
- An increasing number of developing countries hold at least somewhat competitive subnational elections, but **the details of electoral rules (and how they affect and are affected by local sources of power) matter**
- Councils may be only **partly elected**, elections may use closed **party lists**, one dominant political party may wield strong control, local councilors may be elected **local government wide or from wards**, etc.
- Difficult to generalize beyond recognizing that **the nature and exercise of local elections can greatly affect fiscal performance** and need to be understood

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Other Local Accountability Requirements/Mechanisms

- Elections are known as a relatively **blunt instrument of accountability**
- Other mechanisms **can promote public knowledge of expenditure and revenue details and alleviate political obstacles to revenue generation by better linking payments to services**: public consultation, information/education, participatory planning and budgeting, social auditing, etc.
- But such approaches can be **pro forma and also subject to elite capture, corruption, weak capacity, etc.**
- **Effectiveness requires public awareness/interest/capacity**: Do local people know about and understand the available mechanisms? Can they access them? Are they willing to use them or do they feel intimidated about doing so?

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Importance of the Local Social Contract for Fiscal Decentralisation: e.g. Taxpayer Compliance

- **Tax compliance is positively related to:**
 - Ability to pay
 - Perceived probability of prosecution
 - Perceptions of fairness in treatment by local government
- **Tax compliance is negatively related to:**
 - Lack of satisfaction with local public services
 - Excessive taxpayer harassment
 - General mistrust of local government
- Limited evidence but where available citizens indicate a **willingness to pay more local taxes if local governments would do more** for the local community

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Corruption

- Corruption, which could increase or decrease under decentralisation; **system design and levels of accountability matter**, but in varying ways
- Anti-corruption **reforms can be offset by behavior adjustments rooted in political/social dynamics**
- Revenue **leakage may continue under privatized collection but shift** from the collection point (the collector-taxpayer transaction) to the administrative office (the contractor-local government transaction).
- During implementation of formally adopted reforms **allegiances to social groups can trump professional allegiance** to the public service

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The Broader Subnational Accountability Landscape

- Subnational governments **may not be the only public sector actors in the local landscape**
- **Devolved systems of subnational government may exist in parallel with deconcentrated administrations**, both with departments in the same sectors and jurisdictions without clearly distinguished responsibilities
- Other **service delivery mechanisms with dedicated funding**, e.g. constituency and community development funds, can further challenge the role of local government
- **Willingness to engage with local governments and pay local taxes is likely to be undermined** if unclear/confused accountability channels leave citizens unsure of what to expect from local governments

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Urban Area Governance

<u>Model</u>	<u>Coordination</u>	<u>Example</u>
Single Multi-purpose, Area-wide Jurisdiction	Jurisdiction has extensive authority; also works with other entities/levels	Cape Town Metropolitan Municipality
Several Multi-purpose Jurisdictions of one or more type in metropolitan areas	<ul style="list-style-type: none"> • May or may not be formal/strong • May be voluntary or mandatory 	Metropolitan Manila Development Authority (16 cities plus one municipality); centrally created/financed
Single Multi-purpose Jurisdiction and one or more Special Purpose Jurisdictions in metropolitan area	<ul style="list-style-type: none"> • May be locally or centrally driven • May have considerable fiscal resources or depend heavily on the center 	Nairobi (City Council & service authorities); Ministry of Nairobi Metropolitan Development extends beyond City Council
Multi-purpose Government Jurisdictions and Special Development Jurisdictions in metropolitan area	<ul style="list-style-type: none"> • May or may not be incentives to work together 	Cairo (5 governorates and 8 “New Cities”); separate governance structures and limited cooperation

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VI. Capacity and Leadership

- General sense and some empirical evidence suggests that **capacity and leadership can be important forces** in decentralisation outcomes
- There **is not enough study of how and why** these were built and if/how they may be replicable
- **How capacity is developed matters**—comprehensive/targeted, supply/demand driven, classroom/on-the-job
- **Much capacity building remains relatively supply driven and classroom based** despite concerns about effectiveness
- Capacity is **not only for governments** (local and/or central): decentralisation reforms need a **capable local civil society** to work

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VII. Strategic Orientation/Implementation

- As indicated earlier, there is generally **more focus on decentralisation reform design** than on implementation
- Even if a design is appropriate and feasible, there are commonly **considerable challenges to the implementation of decentralisation reforms**
- Reform often moves at an **inappropriate pace** (too quickly or slowly) and with **relative inattention to embedded political/institutional incentives** that affect performance
- Growing interest in how to more **strategically implement and sequence fiscal decentralisation** (more in next session)

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VIII. Concluding Thoughts

- **Factors beyond those typically posited** influence how decentralisation is pursued and help explain the deviation between theory and practice
- **National political dynamics** are characterized by (often unstable) incentives that may undermine decentralisation even where a strong framework has been adopted
- **Diverse central agencies with competing perspectives** are often able to pursue conflicting agendas not uncommonly reinforced by international agencies, especially in aid dependent countries
- **Complex local political realities** can severely constrain the effective implementation of even a well-designed intergovernmental fiscal system

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Concluding Thoughts (continued)

- **Capacity issues** are critical at the central, subnational and civil society levels--well recognized but less well managed
- All reforms involve some plan for implementation, but there has been insufficient attention to developing **strategies for implementing reforms** that recognize and work with prevailing conditions and constraints
- The issues covered here are generally **recognized to some extent but not adequately considered in framing and executing reform**
- No approach can be comprehensive and deal with all challenges, but more can be done to understand broader realities and **what they imply for productive, pragmatic, and strategic subnational fiscal reform**