

Fiscal Decentralisation

Strategically Implementing Decentralisation and Intergovernmental Reform

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Outline

- **I. Mainstream Normative Approach to Fiscal Decentralisation**
- **II. Observations from Practice**
- **III. Elements of an Implementation Strategy**
- **IV. Selected Examples**
- **V. Moving Forward**

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I. Mainstream Normative Approach to Implementing Fiscal Decentralisation



Bahl and Martinez-Vazquez

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Assessment of the Normative Approach

- The **logic of the normative approach is compelling**, and in an ideal world it would be a highly desirable way to proceed
- As previously discussed, **a range of real-world contextual factors and dynamics complicate application** of the normative approach
- Whatever the extent to which the normative approach can be followed, there will be a **need for an adequately robust institutional framework and strategy** to design and implement decentralisation reform

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II. Observations from Practice

- **Often insufficient attention to developing a credible and inclusive process for building a sufficiently broad-based consensus** on decentralisation reform goals, approaches and systems
- **Common lack of delineation of supervisory, regulatory, and technical assistance functions** among central government agencies involved in designing and executing decentralisation
- **Typically weaknesses with coordination mechanisms** charged with ensuring that these various agencies work together and develop consistent systems and procedures for local governments (if such a mechanism exists)

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Scope and Structure of Decentralisation Reforms

- Two common problematic classes of reform: **unworkably comprehensive or limited** (often technical) and uncoordinated with broader agenda
- Decentralization often **coordinated by single lead ministries** perceived as rivals by other key players
- May be **separate/uncoordinated mechanisms for policy development and implementation**
- Not uncommonly an **unbalanced focus** on either supply or demand side reforms
- Typically treat all sub-national governments or classes (cities, municipalities, towns, etc.) **as if they have similar capacity**
- **Lack of attention to implementation strategy**—national and subnational

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Implementation Strategy: National Perspective

- **National framework adoption approach:** center sets the framework and assumes all actors/levels comply (“sink or swim”)
- **Heavily managed gradualist approach:** central/state government manages each step and makes decisions
- **Strategic asymmetric approach:** reforms defined and rolled out (with targeted capacity building) through consultative mechanisms; asymmetric treatment of subnational governments with different characteristics/capacities; negotiated reform trajectories; performance incentives for adopting reforms; etc.; after demonstrated progress, more advanced reforms can be progressively undertaken (more later)
- Each approach has **benefits and risks**, but the first two have dominated and often failed to meet expectations

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Implementation Strategy: Local Perspective

- **Starting point:** begin local reforms on a base of simple, manageable, and *more politically acceptable reforms* that maximize the probability of successful performance and begin to build a solid foundation for further reform
- **Raising awareness:** appropriate use of citizen and business information and education campaigns
- **Engaging citizens/voters/taxpayers:** Appropriate (for local conditions) participation and oversight mechanisms, user committees, nongovernmental partnerships, better linkage of revenue payments to service delivery, etc.
- Risks of **political capture of the strategy**, but reformers can look for ways to be aware of the risks and try to counteract them

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III. Elements of an Implementation Strategy

- Like many public sector reforms, fiscal decentralisation is, as noted earlier, often **complex, contentious, and dependent** on:
 - A level of **capacity** that does not broadly exist;
 - **Sustained behavioral changes** that are unlikely to occur easily or rapidly
- Thus, a deliberate **strategy to implement** fiscal decentralisation (and an appropriately inclusive process for defining it) is as important its design
- **Developing a strategy** requires diagnosing the situation and making basic decisions about the scope, management and pace of reforms

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Elements of Implementation: Diagnosis and Basic Decisions

- **Diagnosing the Situation**
 - Understanding context and the (true) incentives of various key actors/stakeholders at various levels
 - Taking stock of *de jure* reforms and the extent to which they can be realized and how
- **Basic Strategy Decisions**
 - Pure framework approach vs. developmental approach?
 - Rapid and comprehensive vs. gradual and incremental?
 - Standardized and uniform vs. asymmetric and tailored?

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Management and Capacity

- **Management Framework**
 - Clear delineation and sharing of responsibilities of actors involved in implementation
 - Provision for adequate coordination of actors
 - Enforcement of compliance with decentralisation related responsibilities
- **Building Capacity**
 - For governmental actors at all levels
 - General (matters of relevance to all involved) vs. targeted (for specialized functions)
 - Strengthen civic education and support mechanisms

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Coordinating Donors and M&E

- **Coordinating external assistance:**
 - Moving beyond a focus on individual ministry-donor relationships
 - Harmonizing donor approaches with country reality
- **Monitoring/Evaluating**
 - Understanding decentralisation performance (compliance, performance, satisfaction)
 - Publicizing information/results
 - Feedback for adjustment of problematic features

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A “Model” Strategic Approach?

- **Identifying Tactical Entry Points and Reform Sequencing**
- **Crafting Political Agreements and Institutional Arrangements**
- **Creating Robust Incentives to Stimulate Improved Performance**
- **Building the Right Capacity in an Appropriate Way and Sequence**

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Identifying Tactical Entry Points/Sequencing

- **Build on positive aspects of the system** where success is more likely where feasible
- **Use a clearly defined starting point** consistent with the capacity and/or performance of subnational governments (may be asymmetric)
- Aspects of reform (administrative, fiscal, political) should be sufficiently **integrated** (initially at a basic level depending on context)
- Technical reforms should be linked to **specific functions that are going to be undertaken**, such as service delivery or revenue generation
- Further assumption of desired responsibilities/ behaviors should **build progressively and according to clear criteria** on earlier steps

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Crafting Political Agreements and Institutional Arrangements

- **Work with willing/committed partners** in the early stages of decentralisation reform rather than trying to force initial changes where there is likely to be considerable resistance
- The starting points for reform may be **partially negotiated** with local governments and other actors, placing some responsibility on them for what they agree to
- **Establish a coordinating body** to manage each step of the implementation process
- International experience suggests that an **effective coordinating body** must have sufficiently broad credibility (be as neutral as possible), be at a high level in the bureaucracy, and have authority to negotiate and enforce compliance with reforms as needed

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Creating Robust Incentives

- Provide strong **positive/negative incentives** for local governments/other actors to achieve desired and agreed goals
- The coordinating body should be able to **oversee implementation** to ensure that all parties—central, local, external—meet responsibilities as per the legal framework and agreements
- Adopt **innovative mechanisms** that may help to facilitate successful implementation:
 - **Enforceable accountability mechanisms**, such as central contracts with local governments
 - **Financial incentives** for adoption of reforms and improvements in performance, such as compliance or performance based grants
 - **Tournament based approaches** that bring recognition (may be financial but need not be)

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Building the Right Capacity Appropriately

- **Build capacity** in a way that is well linked to the decentralisation implementation strategy
 - Consider balance of **supply versus demand driven?**
 - Target capacity building to **immediate functions/ tasks** rather than provide only broad, generic classroom-based training
 - Providing as needed periodic, on-site **follow-up**, troubleshooting and technical assistance
 - Act on the **need for both technical** (training local governments to meet their responsibilities) **and governance** (training/facilitating citizens, elected officials and subnational staff to work effectively with each other) **capacity building**

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IV. Selected Examples of Key Institutions and Processes

- There is **no “best practice” country** in terms of successful decentralisation coordination, robust implementation strategy and effective capacity building
- Many countries, however, have developed selected **elements of good practice** in the various institutional mechanisms they have adopted to advance decentralisation

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Coordination Bodies

- Coordination remains **one of the most elusive problems** in decentralisation internationally
- In many cases, the responsibility for decentralisation policy and implementation remains **fragmented** across sometimes competitive and minimally cooperative central agencies that are often supported by different international agencies
- Some countries have attempted **reforms** in this area (some have not survived or been modified)

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Regional Autonomy Review Board (Indonesia)

- Ministerial **high level policy making** body
- Effective on broad decentralisation design, but its effects **did not extend to operational details and implementation**, which were assigned to Ministry of Home Affairs and to a limited extent other ministries
- **Lack of functional clarity** between Home Affairs and other ministries persisted and coordination challenges remain
- **Decentralisation Support Facility** formed in an attempt to improve government and donor initiatives but also ran into challenges

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Decentralisation Secretariat (Uganda)

- **Coordinated implementation of certain key activities** early in the decentralisation process fairly well because heavily staffed by consultants (good quality technicians paid at higher than civil service wages)
- But the Secretariat was **affiliated with the relatively weak Ministry of Local Government** and had little policy leverage over powerful ministries, e.g. the Ministry of Finance, Planning and Economic Development and some sectoral ministries, for more advanced reforms
- The Secretariat was **phased out** because of design and funding concerns and never really replaced

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National Decentralization Committee (Thailand)

- **Broad representation** from a range of national and subnational government actors as well as from the nongovernmental arena
- **Comprehensively charged** with making, implementing, and monitoring decentralisation policy
- **Decentralisation was interrupted** by political developments--political commitment diminished and there was limited progress
- **Unclear where the system will go** in the future or if the promise of the NDC can be realised

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National Committee for Sub-national Democratic Development (Cambodia)

- **Broad representation** from a range of national ministries and agencies involved in local finance, service delivery and development
- Mandated to **develop and implement policy related to subnational democratic development** and also charged with capacity development and coordinating donors
- Challenges emerged because although policy making is broadly represented, **the operational Secretariat is based in the Ministry of Interior**, which limits its influence on the work of other powerful ministries, such as the Ministry of Economy and Finance

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Implementation Strategy

- Because decentralisation is often pushed by crisis or at least is the result of significant political changes that create the opportunity to pursue (or appear to pursue) decentralisation, there is **often an urgency for reform and few countries develop a true strategy**
- In many cases, however, this **results in poor performance, slowing down of reforms, and even some degree of recentralisation**
- Although it is hard to identify an advanced integrated decentralisation strategy, some countries have developed **elements of a strategy**

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Elements of Strategy in South Africa

- South Africa to some extent **treats different local governments of the same type differently based on capacity**
- Most **large metropolitan governments** have a wider range of functions and their role has been growing over time
- **Smaller municipalities** are assigned only functions that they can responsibly manage until capacity is built and support for institutional development is provided
- **Revenue and intergovernmental transfer reforms** have adapted to experience

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Elements of Strategy in Cambodia

- **Cambodia started decentralisation very modestly**, giving small resources and no major responsibilities initially to one lower level of government
- The intention was to **build political credibility** by allowing local government constituents to help select small priority projects
- In the process of providing projects, **local staff and citizens gained valuable expertise**
- Decentralization was later **extended to other subnational levels and the country** is still in the process of assessing formal service and revenue assignments

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Elements of Strategy in Ethiopia

- **Ethiopia started decentralisation as a major initiative**, giving major resources responsibilities initially to ethnically identified state governments
- The intention was to **hold off political crisis and keep the country together** after the loss of the regional state of Eritrea
- There was a strong focus on **developing systems and technical expertise at the national and regional state level**
- Decentralization was later **extended to sub-regional state jurisdictions** and good systems in place at higher levels were already in place to extend/adapt for use by the lower tiers

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Capacity Building Mechanisms

- **Much capacity building is still primarily supply driven** in many developing countries, with relatively standardized programs offered by national training institutes
- There is broad international recognition that **demand driven capacity building can play an important role** in generating effective and sustainable outcomes, but major reforms have been limited
- Some developing countries have **adopted limited innovations** in this area

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Elements of Capacity Building In Uganda

- **Uganda required local governments to meet certain prerequisites** before they could receive resources for development projects from a development transfer fund dedicated for this purpose
- If a local government did not meet these prerequisites, it received a **capacity building grant** to help it to develop the necessary capacity
- As local government capacity and performance developed, **additional funds** were made available

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Elements of Capacity Building In Kenya

- **Under its previous system (prior to 2010 Constitution), Kenya experimented with a productive pilot program for developing capacity** in which a reform package was negotiated with the Ministry of Local Government
- The local governments were provided a **mobile technical assistance team to train and periodically follow up** on skill implementation
- Local government **performance was also monitored and the results used to adjust reform programs** for future years

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V. Moving Forward

- First, **each country is unique**; basic reform principles need to be appropriately tailored to the economic, political, fiscal and social realities
- Second, **consultation and collaboration** among levels of government and other actors are essential as efforts to strengthen local finance systems advance
- Third, while **political factors are critical** and there is no point in pursuing infeasible reforms, it is also important to make decisions about reform based on **good information and evidence on both process and results**
- Fourth, there may be considerable value added from **regional and global cooperation**, sharing experiences, and learning by doing in pursuing fiscal decentralisation reform

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Moving Forward (continued)

- Some form of decentralisation **can generally be productive, but the nature and scope as well as how quickly it can be adopted may vary greatly—depending on contextual issues**, from basic historical/cultural/political economy factors to the capacity of the central government, local governments, and citizens
- **The formal approach (central and local level)** should be (at least somewhat):
 - **Integrated** (technical/political, supply and demand sides, etc.)
 - **Strategic** (in terms of what can be accepted and absorbed; perhaps asymmetric/negotiated) and
 - **Progressive** (such that initial steps are built on in a criteria based framework/trajectory oriented to performance, etc.)

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New Diagnostics?

- It is **not necessary to be able to generalize** about approaching decentralisation and it is probably impossible to do so beyond rather general points
- What is really needed to help analysts and practitioners make decentralisation work better is **a new type of flexible analytical diagnostic** for assessing the opportunities and challenges for reform in a particular context
- Such a diagnostic has the potential to support the development of pragmatic reforms and support programs—**helping people to think differently and more creatively**
- Framing decentralisation strategically as a **process that involves learning and adjustment is essential**