



# Introduction session on donors, decentralisation and accountability

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# Decentralisation

- “**Decentralization** is the transfer of *authority and responsibility for public functions* from the central government to subordinate or quasi-independent organizations or the private sector.”

(Litvack and Seddon 1999)

- Alternative to Centralized Government:
  - Deconcentration
  - Delegation
  - Devolution

# Decentralisation

## ■ Deconcentration

- Shifting decision-making power to central government officials that are located outside the capital.

## ■ Delegation

- Shifting expenditure responsibilities to semi-autonomous government bodies or NGOs that are ultimately fully accountable to the center.

## ■ Devolution

- Shifting *expenditure responsibilities* to subnational governments in which subnational governments are granted *substantive decision-making authority*.

# Decentralisation

- **Fiscal decentralization** studies the fiscal aspects of how public goods and services are (or could be) *provided and financed* by regional and/or local governments in a *devolved* system of government.
- (Fiscal) decentralization is the *empowerment of people* by the (fiscal) empowerment of their local governments.

# Decentralisation

- **Dimensions of Decentralization:**

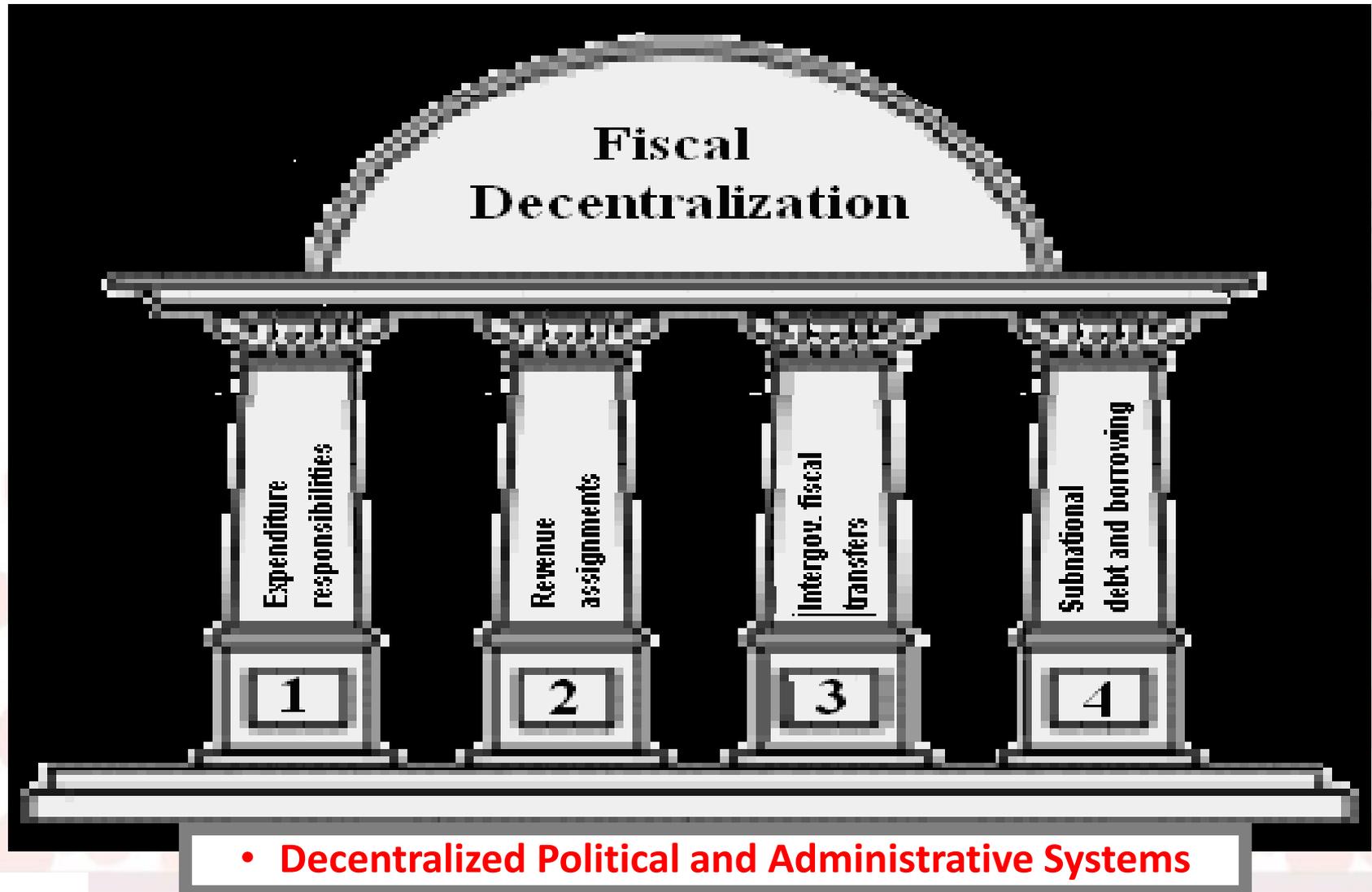
- Effective decentralization (“empowerment of local governments”) requires:

- Political empowerment (**Political decentralization**);
    - Regulatory (or “administrative”) empowerment (**Administrative decentralization**);
    - Fiscal empowerment (**Fiscal decentralization**)

# Decentralisation

- ***Political decentralisation***: political power given to sub-national officials through popular elections, political accountability to their local constituents, and political independence from the centre once elected.
- ***Administrative decentralisation***: discretionary power and autonomy of sub-national government officials in managing local affairs (local civil service, local regulatory framework, and sub-national financial management).
- ***These two forms of decentralisation set up the foundation for fiscal decentralisation***:
  - Devolution of fiscal decision-making power and management to sub-national governments,
  - Transfer of tax authority to SNGs (discretion over local tax policy and administration) as well as guaranteed intergovernmental revenue transfers from the central government.

# Decentralisation



# Accountability

- It is generally accepted that the concept of **good governance** rests on four major characteristics or pillars:
  - Accountability, transparency, predictability, and participation (Schiavo-Campo and Tommasi 1999).
  - The quality of governance in a country has been recognized as an important determinant of development and growth (OECD 2008).
- **Accountability** is a key requirement for governance and refers to the capacity to hold public officials responsible for their actions.

# Accountability

- Figure 1: Characteristics of good governance



Source: (UNESCAP 2010)

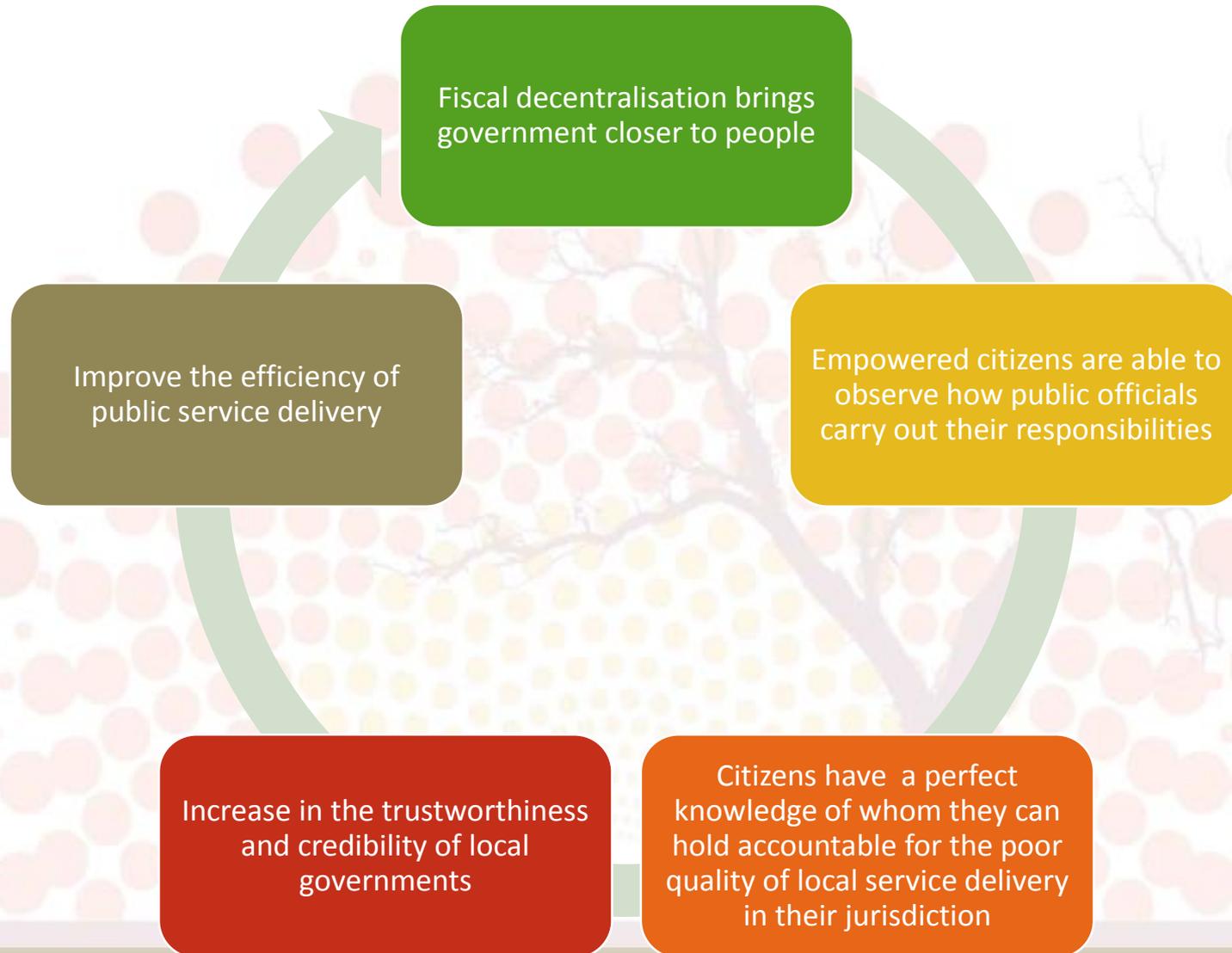
# Decentralisation and Accountability

- A successful fiscal decentralisation system can lead to greater ***downward accountability*** to local people and increased levels of citizen representation which effectively plant the seed for democracy.
  - Popularly elected local council, locally appointed chief officials, and locally approved budget constitute some of the most crucial requirements of a decentralized system.
  - One of the rationales for fiscal decentralisation is that it moves government closer to people:
    - If citizens have no faith in how the government will spend collected revenues, this would reduce tax compliance.

# Decentralisation and Accountability



# Decentralisation and Accountability



# Decentralisation and Accountability

- In Africa, the reasons for decentralization are in general country-specific but most often include:
  - ***economic reasons*** (e.g. poverty reduction, economic development, improving efficiency of government service delivery),
  - ***governance reasons*** (e.g. enhance public participation, moves government closer to the people, promote good governance, and downward accountability), and
  - ***political reasons*** (e.g. reduce the political power of the central government).

# Decentralisation and Accountability

- A few countries are already well advanced in the decentralization process (e.g. South Africa, Uganda, Nigeria, Rwanda, Tanzania, Kenya, Ghana, Ethiopia, Zimbabwe)
- A large number of countries has only adopted legal texts that represent a step forward in the decentralization process but are not accompanied by implementing regulations nor an implementation of the decentralization program itself (e.g. Cote d'Ivoire, Gabon).
- In between, there are a few countries that have just started the process and are establishing new administrative units and/or transferring responsibilities and revenues to them (e.g. Mali, Madagascar, Burkina Faso, Republic Democratic of Congo, Namibia, Malawi)
- While there are other countries where a decentralization policy initiative is being considered and is still in the announcement stage (e.g. Benin)

# Decentralisation and Accountability

- Whatever the stage of the decentralization process at which African countries are found,
  - it remains accurate that when the necessary conditions for a successful fiscal decentralization have been put in place, the economic, social, and political benefits from fiscal decentralization could be substantial.
  - For example, a successful fiscal decentralization program could lead to poverty alleviation through an efficient provision of basic local services, a greater revenue mobilization and a reduction of inter-jurisdictional income and capacity disparities;
  - It could also lead to sustainable development, good governance, and greater citizen participation

# Decentralisation and Accountability

- Similarly, a fiscal decentralization process that is not appropriately designed and implemented, in a consistent and comprehensive manner, would probably degenerate in an unsuccessful reform.
  - For instance, one significant shortcoming often encountered in the decentralization process in many African countries is the fact that the maxim “finance must follow function” is not usually respected.
  - This maxim entails that a fiscal decentralization policy must first determine the expenditure assignments, i.e. the functions and responsibilities at each level of government, and only then revenue assignments should be determined.
  - Failure to respect that sequence might lead to intergovernmental tension, fiscal mismanagement, and elite capture

# Decentralisation and Accountability: Role of donors

- Bring taxation and its importance in strengthening the relationship between governments and their citizens to the forefront
- Help inform the public about taxation and tax issues or improve taxpayers' education and understanding on taxation issues in general.
- Help citizens understand the bargaining power that comes from complying with taxes obligations and the virtuous circle of benefits (such as effective and accountable state, better governance, greater democratisation efforts) derived from establishing an enduring fiscal social contract.

# Decentralisation and Accountability: Role of donors

- With regard to fiscal decentralisation:
- Implementation of fiscal decentralisation and subnational government taxation often delayed due to:
  - **Lack of political will and lack of bureaucratic support:** In the absence of **strong political will**, efforts to implement an effective subnational government taxation would be moot
  - Reluctance to devolve tax authority to LGs to accompany their expenditures responsibilities for ***fear of empowering the opposition*** and ***losing political power***, especially in the case of capital cities and regional govts
  - Consequences:
    - Heavy ***financial dependence*** at local level on resources from the centre
    - Creates ***disincentives at local level to find efficient ways to raise own revenue sources***

# Decentralisation and Accountability: Role of donors

- Development partners may assist countries in designing and implementing their fiscal decentralization processes in many ways:
  - Support in and revision of policy design and development of white papers providing a framework for fiscal decentralization ;
  - Support in and revision of decentralization laws and implementing regulations;
  - Support in monitoring and evaluation
  - Support a dire need for capacity building at the level of the Ministry of Finance, the Ministry in charge of decentralization, and at the level of elected local government councils to assist them in local economic development;
  - Support in the elaboration of training manuals for elected local officials to be used around the country

# Decentralisation and Accountability: Role of donors

- Ultimately, ***Political will*** needs to be mustered for a significant impetus to be given to a sound fiscal decentralisation process

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