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**Book**

## Decentralization, Local Governance, and Localizing the Sustainable Development Goals in Asia and the Pacific

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*Routledge Studies in Sustainable Development*

# **DECENTRALIZATION, LOCAL GOVERNANCE, AND LOCALIZING THE SUSTAINABLE DEVELOPMENT GOALS IN ASIA AND THE PACIFIC**

Edited by  
Bruno Carrasco, Hanif A. Rahemtulla, and  
Rainer Rohdewohld





# Decentralization, Local Governance, and Localizing the Sustainable Development Goals in Asia and the Pacific

Since its adoption in 2015, the 2030 Agenda on Sustainable Development has shaped not only international development cooperation but also the design of national trajectories for social and economic development. In tandem with other global agendas adopted that year (such as the Paris Agreement on Climate Change and UN Habitat's New Urban Agenda) it remains the global and regional blueprint for sustainable development despite the COVID-19 pandemic.

The term "localizing the Sustainable Development Goals (SDGs)" has been used to capture the importance of subnational governments (SNGs) for achieving national SDG agendas. However, there is little deeper analysis of the required nexus between fiscal, political, and legal arrangements for SNGs; their involvement in national policy arenas (which discuss and decide on national SDG strategies); and the need for locally disaggregated data systems on the one hand and effective SDG localization strategies on the other hand. It is this aspect which the present publication explores in greater detail by using country examples and conceptual analyses.

The text will be of interest to policymakers, scholars, students, and practitioners in public policy and public administration, decentralization, and sustainable development, with a focus on the Asia and Pacific region.

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ADB is committed to achieving a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. Established in 1966, it is owned by 68 members—49 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

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# Foreword

*Woochong Um*

Managing Director General and Officer-in-Charge, Vice-President for Knowledge Management and Sustainable Development, Asian Development Bank

In September 2019, United Nations Secretary-General António Guterres issued a global call for a “Decade of Action” to deliver the Sustainable Development Goals (SDGs) by 2030. At that time, nobody suspected that a global pandemic would begin to engulf the world in early 2020. The COVID-19 pandemic disrupted many encouraging trajectories for social and economic development in Asia and the Pacific, and elsewhere. Three years later, we face a world where over six million people have lost their lives, millions of employment opportunities have been destroyed, and many gains of previous development efforts have been wiped out. Large segments of societies in ADB’s developing member countries (DMCs) continue to face economic hardship because of lost livelihoods and uncertain times ahead.

The pandemic brought to light the lack of resilience and the multiple social, economic, and environmental vulnerabilities which existed at national, regional, and global levels. The summary of key messages from the 2021 voluntary national reviews, compiled by the UN Economic and Social Council, indicates how countries’ efforts to move toward achieving the SDGs have been affected by the pandemic.

When the COVID-19 pandemic hit the region, ADB acted swiftly by providing a USD 20 billion emergency package to its DMCs. In December 2020, the bank launched an additional USD 9 billion vaccine initiative—the Asia Pacific Vaccine Access Facility—offering rapid and equitable support to DMCs to procure and deliver effective and safe COVID-19 vaccines. By the second quarter of 2022, more than 280 projects amounting to approximately USD 31.07 billion had been committed from both packages.

The 2022 *Asian Development Outlook* shows encouraging signs of economic recovery. In developing Asia, GDP is expected to grow by 5.2 % in 2022 and 5.2% in 2023; higher growth rates of 7.4% for 2023 are forecast for South Asia. But this macroeconomic growth needs to translate into tangible improvements of living conditions and livelihoods. The challenge of achieving a green, resilient, and inclusive recovery for Asia and the Pacific still lies ahead of us.

Quite a few observers and analysts have argued that the world (and our region) might have withstood the pandemic better if progress toward the SDGs had been

more advanced by early 2020. I join many others in the strong belief that the 2030 Agenda and its Sustainable Development Goals remain the guiding blueprint for this recovery, together with other global agendas which continue to shape national development efforts and international development cooperation, such as the Paris Agreement on Climate Change, the New Urban Agenda, and the Sendai Framework for Disaster Risk Reduction.

ADB has fully aligned its strategy and operations with the 2030 Agenda: our *Strategy 2030* outlines seven operational priorities and details how these need to be integrated and reflected in regional and country operations. In early 2021, we released our first corporate report on the SDGs. It describes the alignment of our systems and procedures with the 2030 Agenda and with our objective of helping our DMCs achieve the SDGs by 2030. A key message from our President, Masatsugu Asakawa, in *ADB's Support for the Sustainable Development Goals* (2021, p.v) is that

as we map a path to recovery from the pandemic, we must refocus on the SDGs. We must help countries navigate the difficult policy and financing choices that will aid the eradication of poverty, increase inclusion and tackle inequality, promote gender equality, and address environmental sustainability.

In overcoming the impacts of the pandemic and increasing momentum toward achieving the SDGs, knowledge and partnerships are vital strategic ingredients. Our role as a regional development bank incorporates the important function of regional knowledge broker, where we work with our DMCs to generate and disseminate knowledge across the region so that other countries can benefit from it. Many of our activities (such as the recent establishment of the Asia Pacific Tax Hub) aim at exactly this—enabling our DMCs to make better informed decisions based on the accumulated regional and global knowledge about key issues in social, ecological, and economic development.

Together with the UN's Economic and Social Commission for Asia and the Pacific (UN ESCAP) and the United Nations Development Programme (UNDP), ADB has formed the Asia-Pacific SDG Partnership, which has been an important forum to explore issues regarding the 2030 Agenda in the region. Together with UNDP, we have been working on preparing *SDG Country Snapshots* which provide pertinent information on the country's SDG architecture; on relevant plans, budgets, and strategy documents; on SDG financing needs; and on crucial data regarding the status of the SDGs in the respective countries. Partnerships are crucial elements in ADB's approach toward the SDGs.

Our recent joint assessment of the pandemic and its implications has highlighted two major avenues toward recovery: digitalization and regional cooperation.

Digitalization has shown its value during the pandemic. The ability to trace infections, the use of telemedicine, numerous formats of e-learning for the education sector, and e-commerce and e-payment systems have been indispensable instruments, allowing economies and societies to function even as

lockdowns imposed so many restrictions on our normal routines. The potential for digitalization is huge. While maximizing its benefits we also need to build in safeguards to ensure that the existing “digital divide” (between countries and between segments of communities within a country) does not become wider but instead continues to narrow.

Regional cooperation is essential for governments to increase the resilience of their societies and access knowledge on issues such as the use of digital tools for providing services or how to build more inclusive social protection systems. Regional cooperation was critical in avoiding the natural tendency for countries to look inward and close borders during the height of the pandemic. It is equally essential for mobilizing financial resources—for instance, through better cooperation on taxes and domestic resource mobilization, compliance with the agreement on common standards and approaches for SDG-related private investment, and the use of capital markets. Not least, infrastructure connectivity is a key factor in facilitating the flow of goods and services across borders and maintaining that regional and global supply chains stay robust and resilient.

This publication comes at a critical juncture. As we move from containing the pandemic to regaining momentum toward renewed social, economic, and ecological development, improved functionality of our multi-level government systems becomes critically important. In line with their respective mandates and responsibilities, national and subnational levels of government need to provide public services required by the communities. They need to interact and cooperate to achieve national objectives and to utilize their comparative advantages to the maximum in the interest of the people. As the Global Task Force of Local and Regional Governments (GTF) points out in *Towards the Localization of the SDGs: Sustainable and Resilient Recovery Driven by Cities and Territories* (2021), it is crucial that innovative local approaches “in terms of housing, healthcare or improved access to public service provision are transformed into permanent policies.”

The debate on localizing SDGs has been an integral part of the 2030 Agenda. This is not just an agenda for governments; it needs the full involvement and contributions of the private sector and civil society. Since 2015, the understanding that subnational levels of government have to take their legitimate place in the formulation and implementation of national SDG strategies is gaining traction throughout the region. The GTF’s assessment of this year’s voluntary national reviews clearly shows how the subnational voice is becoming stronger in this field.

ADB has been a strong supporter of the “localizing SDG” discourse. Based on *Strategy 2030*, our *Operational Plan for Priority 6: Strengthening Governance and Institutional Capacity (2019-2024)* prioritizes, among others, support for decentralization and local governance reforms which have a strong link with the improvement of service delivery outcomes and therefore are crucial in the context of achieving national SDG priorities. Since 2018, our regional technical assistance project on *Strengthening Institutions for Localizing Agenda 2030 for Sustainable Development* has been working with a range of regional and global networks (including the Asia-Pacific chapter of United Cities and Local Governments) on

localizing SDG topics. The project has sponsored small-scale pilot initiatives in selected DMCs dealing with SDG implementation at the subnational level.

This publication is an important example of ADB's work as a knowledge broker. It is based on a simple e-learning course on "Decentralization, Local Governance, and Localizing SDGs in Asia and the Pacific," conducted for the first time in 2020. In this book, the material has been expanded, upgraded, and enriched (using the most recent diagnostic works) to show how the achievement of the SDGs can be supported and accelerated in our region—provided SNGs are given the enabling environment that allows them to contribute fully and meaningfully to national SDG priorities. Bringing together regional and international experts on the topics covered, the publication will influence the conceptual debate within the larger decentralization and local governance community in Asia and the Pacific. It will also be vital for charting strategies on how localizing the SDGs can help to accelerate their achievement until 2030.

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# Abbreviations

<b>AAAA</b>	Addis Ababa Action Agenda
<b>ADB</b>	Asian Development Bank
<b>ADB I</b>	Asian Development Bank Institute
<b>ADLG</b>	Association for the Development of Local Government (Pakistan)
<b>ADP</b>	Annual development plan
<b>APEKSI</b>	Association of Indonesian Municipal Governments
<b>APKASI</b>	Association of Indonesian District Governments
<b>ASEAN</b>	Association of Southeast Asian Nations
<b>AWPB</b>	Annual work plan and budget
<b>BAPPEDA</b>	<i>Badan Perencanaan dan Pembangunan Daerah</i> (Regional Development Planning Agency) (Indonesia)
<b>BAPPENAS</b>	<i>Badan Perencanaan dan Pembangunan Nasional</i> (National Development Planning Agency) (Indonesia)
<b>BARMM</b>	Bangsamoro Autonomous Region of Muslim Mindanao (Philippines)
<b>BISP</b>	Benazir Income Support Programme (Pakistan)
<b>BKN</b>	<i>Badan Kepegawaian Nasional</i> (National Civil Service Agency) (Indonesia)
<b>BOG</b>	Board of governors (Cambodia)
<b>BPS</b>	<i>Badan Pusat Statistik</i> (Statistics Indonesia)
<b>C/S</b>	Commune/ <i>sangkat</i> (Cambodia)
<b>CAC</b>	Community awareness center
<b>CAR</b>	Council of Administrative Reform (Cambodia)
<b>CBMS</b>	Community-based monitoring system
<b>CCC</b>	Cooperation Committee for Cambodia
<b>CD</b>	Capacity development
<b>CDC</b>	Council for Development of Cambodia
<b>CDP</b>	Commune Development Plan (Cambodia)
<b>CDPI</b>	Centre for Peace and Development (Pakistan)
<b>CDRI</b>	Cambodia Development Resource Institute
<b>CEE</b>	Cities Enabling Environment
<b>CEF</b>	Coronavirus Emergency Fund

<b>CIP</b>	Commune Investment Plan (Cambodia)
<b>CIS</b>	Commonwealth of Independent States
<b>CLDL</b>	Community-Driven Local Development Programme (Pakistan)
<b>CLGF</b>	Commonwealth Local Government Forum
<b>CNRP</b>	Cambodian National Rescue Party
<b>COA</b>	Commission on Audit
<b>COFOG</b>	Classification of functions of government
<b>COMFREL</b>	Committee for Free and Fair Elections in Cambodia
<b>CPA</b>	Citizen participatory audit
<b>CPA</b>	Comprehensive Peace Agreement (Nepal)
<b>CPP</b>	Cambodian People's Party
<b>CRHP</b>	The Citizen Representative <i>Hural</i> Project (Mongolia)
<b>CS</b>	Commune/ <i>sangkat</i> (Cambodia)
<b>CS/DLA</b>	Cabinet Secretariat's Directorate of Local Administration (Cambodia)
<b>CSF</b>	Commune <i>Sangkat</i> Fund (Cambodia)
<b>CSO</b>	Civil society organization
<b>D&amp;D</b>	Decentralization and deconcentration
<b>DAC</b>	Development Assistance Committee
<b>DAK</b>	<i>Dana Alokasi Khusus</i> (Specific Allocation Grant, Indonesia)
<b>DDC</b>	District Development Committee (Nepal)
<b>DEF</b>	(Provincial) Department of Economy and Finance (Cambodia)
<b>DeLoG</b>	Development Partners Network on Decentralization and Local Governance
<b>DFID</b>	Department for International Development (United Kingdom)
<b>DI</b>	Devolution Index
<b>DLG</b>	Decentralization and local governance
<b>DMC</b>	Developing member countries
<b>DMK</b>	District/municipality/ <i>khan</i> (Cambodia)
<b>DO</b>	District ombudsman
<b>DOLA</b>	Department of Local Administration (Cambodia)
<b>DP</b>	Development partner
<b>DPOD</b>	<i>Dewan Pertimbangan Otonomi Daerah</i> (Regional Autonomy Advisory Council, Indonesia)
<b>DPSP</b>	Decentralization Policy Support Project (Mongolia)
<b>DPWGLRD</b>	Development Partners Working Group on Local Governance and Decentralization
<b>DSC</b>	Devolution Support Committee (Pakistan)
<b>DSF</b>	Decentralization Support Facility (Indonesia)
<b>EC</b>	European Commission
<b>ECP</b>	Election Commission of Pakistan
<b>EPCRC</b>	Economic Policy & Competitiveness Research Center

<b>ESCAP</b>	Economic and Social Commission for Asia and the Pacific
<b>EU</b>	European Union
<b>EU DAR</b>	European Union—Decentralization and Administrative Reform (Cambodia)
<b>EU SPACE</b>	European Union—Strengthening Performance, Accountability, and Civic Engagement (Cambodia)
<b>FA</b>	Functional assignment
<b>FAO</b>	Food and Agricultural Organization
<b>FATA</b>	Federally Administered Tribal Area (Pakistan)
<b>FCDO</b>	Foreign, Commonwealth and Development Office (United Kingdom)
<b>FDP</b>	FATA Development Programme (Pakistan)
<b>FUNCINPEC</b>	National United Front for an Independent, Neutral, Peaceful and Cooperative Cambodia
<b>FY</b>	Financial year
<b>GDP</b>	Gross domestic product
<b>GESI</b>	Gender equality and social inclusion
<b>GIF</b>	Global Indicator Framework
<b>GIZ</b>	German Agency for International Cooperation ( <i>Deutsche Gesellschaft für Internationale Zusammenarbeit</i> )
<b>GMAP</b>	Gender mainstreaming action plan
<b>GON</b>	Government of Nepal
<b>GOP</b>	Government of Pakistan
<b>GRB</b>	Gender responsive budgeting
<b>GTF</b>	Global Task Force of Local and Regional Governments
<b>GTZ</b>	German Agency for Technical Cooperation
<b>HLPF</b>	High-level Political Forum on Sustainable Development
<b>HR</b>	Human resources
<b>ICT</b>	Islamabad Capital Territory (Pakistan)
<b>ICT</b>	Information and communication technology
<b>IFI</b>	International financial institution
<b>IGES</b>	Institute for Global Environmental Strategies
<b>IMC</b>	Inter-Ministerial Commission (Cambodia)
<b>IMF</b>	International Monetary Fund
<b>IMR</b>	Infant mortality rate
<b>INR</b>	Indian rupee
<b>IP3</b>	3-Year Implementation Plan (Cambodia)
<b>IPC</b>	Inter-Provincial Council (Cambodia)
<b>IPM</b>	Inter-Provincial Meeting on Local Governance (Pakistan)
<b>IPWG</b>	Inter-Provincial Working Group on Local Governance (Pakistan)
<b>IT</b>	Information technology
<b>JICA</b>	Japan International Cooperation Agency
<b>KfW</b>	Kreditanstalt fuer Wiederaufbau (State-owned investment and development bank, Germany)

<b>KILA</b>	Kerala Institute of Local Administration (India)
<b>KP</b>	Khyber Pakhtunkhwa (Pakistan)
<b>LAMC</b>	Law on the Administrative Management of Communes/ Sangkats (Cambodia)
<b>Lao PDR</b>	Lao Peoples' Democratic Republic
<b>LATUG</b>	Law on Territorial Units and their Governance (Mongolia)
<b>LCA</b>	Local council association
<b>LCAP</b>	Local Council Association Punjab (Pakistan)
<b>LDF</b>	Local Development Fund
<b>LDI</b>	Local Development International
<b>LED</b>	Local economic development
<b>LGA</b>	Local Government Act
<b>LGCDP</b>	Local Government and Community Development Programme (Nepal)
<b>LGE&amp;RDD</b>	Local Government, Elections, and Rural Development Department (Pakistan)
<b>LGRU</b>	Local Government Reform Unit (Pakistan)
<b>LGUGC</b>	Local Government Unit Guarantee Corporation
<b>LNOB</b>	Leave no one behind
<b>LRG</b>	Local and regional governments
<b>LSGA</b>	Local Self-Government Act (Nepal)
<b>M&amp;E</b>	Monitoring and evaluation
<b>MALA</b>	Mongolian Association of Local Authorities
<b>MASAM</b>	Mainstreaming Social Accountability in Mongolia Project
<b>MCPM</b>	Minimum conditions and performance measures (Nepal)
<b>MCS</b>	Ministry of Civil Service
<b>MDF</b>	Municipal development fund
<b>MDG</b>	Millennium Development Goals
<b>MEF</b>	Ministry of Economy and Finance
<b>MEIAD</b>	Monitoring, Evaluation, Inspection & Audit Department (of the CS/DLA)
<b>MenPANRB</b>	<i>Kementerian Pendayagunaan Aparatur Negara dan Reformasi Birokrasi</i> (Ministry for Administrative Reform) (Indonesia)
<b>MNAO</b>	Mongolian National Audit Office
<b>MNT</b>	Mongolian <i>Tugrug</i> (national currency)
<b>MOF</b>	Ministry of Finance
<b>MOI</b>	Ministry of Interior
<b>MOPR</b>	Ministry of Panchayat Raj (India)
<b>MoWA</b>	Ministry of Women Affairs (Cambodia)
<b>MRD</b>	Ministry of Rural Development
<b>MSS</b>	Minimum service standards
<b>MTEF</b>	Medium-term expenditure framework
<b>MUB</b>	Municipality of Ulaan Baatar
<b>NAOG</b>	National Academy of Governance (Mongolia)

<b>NCDD</b>	National Committee for Sub-National Democratic Development (Cambodia)
<b>NCDD-S</b>	Secretariat of the National Committee for Sub-National Democratic Development (Cambodia)
<b>NEC</b>	National Economic Council (Pakistan)
<b>NEDA</b>	National Economic and Development Authority (Philippines)
<b>NFN</b>	NGO Federation of Nepal
<b>NGO</b>	Nongovernmental organization
<b>NLC</b>	National League of Communes (Cambodia)
<b>NNRFC</b>	National Natural Resources and Finance Commission (Nepal)
<b>NORAD</b>	Norwegian Agency for Development Cooperation
<b>NP2</b>	National Program for Sub-National Democratic Development 2021-2030 (Cambodia)
<b>NPC</b>	National Planning Commission (Nepal)
<b>NP-SNDD</b>	National Program for Sub-National Democratic Development (Cambodia)
<b>NRB</b>	National Reconstruction Bureau (Pakistan)
<b>NUA</b>	New Urban Agenda (UN Habitat)
<b>OBB</b>	Output-based budgeting
<b>ODA</b>	Official Development Assistance
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>OWSD</b>	One-window service delivery
<b>OSR</b>	Own-source revenue
<b>OWSO</b>	One-window service office
<b>P4R</b>	Partners for Review
<b>P&amp;D</b>	Planning and development
<b>PAR</b>	Public administration reform
<b>PB</b>	Participatory budgeting
<b>PBA</b>	Program-based approach
<b>PBB</b>	Performance-based budgeting
<b>PBG</b>	Performance-based grant
<b>PBL</b>	Policy-based lending
<b>PEFA</b>	Public Expenditure and Financial Accountability
<b>PFC</b>	Provincial Finance Commission (Pakistan)
<b>PFM</b>	Public financial management
<b>PFMRP</b>	Public financial management reform program
<b>PILDAT</b>	Pakistan Institute of Legislative Development and Transparency
<b>PKR</b>	Pakistan rupee
<b>PLGA</b>	Punjab Local Government Act (2013, 2019)
<b>PLGSP</b>	Provincial and Local Governance Support Program (Nepal)
<b>PNG</b>	Papua New Guinea
<b>PPE</b>	Personal protective equipment



<b>PPP</b>	Public–private partnerships
<b>PRA</b>	Participatory rural appraisals
<b>PRC</b>	People’s Republic of China
<b>PSM</b>	Public sector management
<b>RAD</b>	<i>Rencana Aksi Daerah</i> (Regional SDG Action Plan) (Indonesia)
<b>RBL</b>	Results-based lending
<b>RDP</b>	Regional development plan
<b>RGC</b>	Royal Government of Cambodia
<b>RIDF</b>	Regional Infrastructure Development Fund (World Bank)
<b>RPJMD</b>	<i>Rencana pembangunan jangka menengah daerah</i> (Regional Medium-Term Development Plan, Indonesia)
<b>RPJMN</b>	<i>Rencana pembangunan jangka menengah nasional</i> (National Medium-Term Development Plan, Indonesia)
<b>RRA</b>	Rapid rural appraisals
<b>SAARC</b>	South Asian Association for Regional Cooperation
<b>SDC</b>	Swiss Agency for Development and Cooperation
<b>SDG</b>	Sustainable Development Goal
<b>SDSN</b>	Sustainable Development Solutions Network
<b>SEI</b>	Stockholm Environment Institute
<b>SIA</b>	State Inspection Agency
<b>SIDA</b>	Swedish International Development Agency
<b>SLP3</b>	Sustainable Livelihood Project, Phase 3 (Mongolia)
<b>SME</b>	Small and medium-sized enterprises
<b>SNA</b>	Subnational administration (Cambodia)
<b>SNDD</b>	Sub-National Democratic Development (Cambodia)
<b>SNG</b>	Subnational government
<b>SNIF</b>	Sub-National Investment Fund (Cambodia)
<b>SPDC</b>	Social Policy and Development Centre (Pakistan)
<b>SPT</b>	Special purpose transfer
<b>STF</b>	Seila Task Force (Cambodia)
<b>SWAP</b>	Sector-wide approach
<b>TA</b>	Technical assistance
<b>TAF</b>	The Asia Foundation
<b>TDF</b>	Town Development Fund (Nepal)
<b>TWG</b>	Technical working group
<b>UCLG</b>	United Cities and Local Governments
<b>UCLG-ASPAC</b>	UCLG Asian-Pacific Chapter
<b>UN</b>	United Nations
<b>UN DESA</b>	UN Department of Economic and Social Affairs
<b>UNCDF</b>	UN Capital Development Fund
<b>UNDP</b>	United Nations Development Programme
<b>UNFCCC</b>	United Nations Framework Convention on Climate Change
<b>UNICEF</b>	United Nations Children’s Fund
<b>UNITAC</b>	UN Transitional Authority in Cambodia

<b>USAID</b>	United States Agency for International Development
<b>USD</b>	United States dollar
<b>VC/NC</b>	Village Council/Neighborhood Council (Pakistan)
<b>VDC</b>	Village Development Committee (Nepal)
<b>VLR</b>	Voluntary local review
<b>VNR</b>	Voluntary national review
<b>VS</b>	Voluntary subnational review
<b>WASH</b>	Water and sanitation
<b>WCF</b>	Ward Citizens Forum (Nepal)
<b>WHO</b>	World Health Organization

# Introduction

## Localizing the Sustainable Development Goals in Asia and the Pacific: Multi-level Governance in the “Decade of Action”

*Bruno Carrasco and Hiranya Mukhopadhyay*

### Rationale for This Publication

In 2015, the United Nations adopted the 2030 Agenda on Sustainable Development. Since then, the 2030 Agenda has shaped not only international development cooperation but also the design of national trajectories for sustainable social and economic development. In tandem with other global agendas adopted that year, such as the Paris Agreement on Climate Change and UN Habitat’s New Urban Agenda (see below), it is the global and regional blueprint guiding the actions of government and nongovernmental actors (UNESCAP 2020).

In line with the spirit of the 2030 Agenda, the term “localizing the Sustainable Development Goals (SDGs)” has been used to capture the importance of subnational governments (SNGs) not only for achieving national SDG agendas but also for co-determining such agendas. This is often described as “whole of society” approach where the commitment and contributions of all segments of the society (such as the public sector, the private sector, and civil society) are required to achieve the SDG targets.

According to the Economic and Social Commission for Asia and the Pacific (ESCAP), the Asia and Pacific region had not been on track to achieve the SDGs by 2030 even before the COVID-19 pandemic hit in early 2020. More than a year later, the ESCAP annual progress report puts it bluntly: “The Asia-Pacific region is not on track to achieve any of the 17 SDGs by 2030. On its current trajectory, the region may achieve less than 10 percent of the SDG targets” (ESCAP 2021:xi). This is an alarming assessment coming at the beginning of what has been termed the “Decade of Action” which was expected to see an acceleration of global progress in achieving the SDGs by 2030. In addition to this overall bleak assessment, the 2021 ESCAP report illustrates the unevenness of progress in terms of individual SDGs,<sup>1</sup> in terms of the subregions, and in terms of individual countries.

There is no doubt that the COVID-19 pandemic has had widespread and negative impacts on the region’s journey toward the objectives of the 2030 Agenda—even though Asian countries had responded to the pandemic in a more effective manner compared to other parts of the world (Sachs & Schmidt 2020:vi). The



Figure I.1 Progress on the Sustainable Development Goals in Asia and the Pacific, 2021.

Source: <https://data.unescap.org/data-analysis/sdg-progress#> (accessed 29-7-2021)

data given in Chapter 6 show that an additional 78 million people in the region dropped below the USD 1.90-a-day extreme poverty line, maternal mortality ratios increased in 14 countries, and an additional 636 million people suffered “multi-dimensional poverty.” Globally, more than USD 1.0 trillion of labor income was lost in 2020 alone, and more than 800 million informal workers were affected by lockdown measures. Economic growth was negative throughout most of the Asia and Pacific region, and there was tremendous pressure on public finances as governments spent on social and economic relief measures.<sup>2</sup>

There is widespread consensus that the social and economic impacts of the pandemic were amplified by already-existing frictions and tensions jeopardizing the achievement of the SDGs and undermining the principle of “leaving no one behind” (LNOB). As Asian Development Bank (ADB) President Masatsugu Asakawa stated clearly: “The COVID-19 crisis ... laid bare underlying social and economic vulnerabilities that have hindered efforts to contain and overcome the pandemic.”<sup>3</sup> Similarly, the Asia-Pacific SDG Partnership had concluded that the

pandemic “has exposed the region’s pre-existing social, economic and environmental vulnerabilities” (UN-ESCAP/ADB/UNDP 2021:iv). Such consensus about underlying vulnerabilities is mirrored by a similar wide-ranging consensus among governments, development partners, and civil society organizations that the 2030 Agenda and its 17 SDGs remain the global and regional agenda for “building back better.” They should help regain the momentum not only to mitigate the immediate impacts of the pandemic, but also to correct some of the existing frictions and vulnerabilities which had weakened the region’s resilience to weather an external shock such as COVID-19.

The motivation for this publication comes from the belief that at the beginning of the “Decade of Action” and in the continuing uncertainty about the pandemic, the role of SNGs becomes even more important than before. The contributions of SNGs will be critical as the region faces multiple challenges, such as overcoming the impacts of the pandemic, accelerating progress toward achievement of the SDGs in the remaining years until 2030, and designing sustainable and locally adapted responses to climate change.

The appreciation of SNGs as implementers of public policies, as facilitators of networks and partnerships between different stakeholders, and as interlocutors between communities and the state, has seen a tremendous increase in the context of formulating and endorsing global agendas such as climate change, urbanization, and the 2030 Agenda. The discourse on “localizing SDGs” recognizes that many of the national SDG targets will not be achievable without the full commitment and involvement of subnational levels of government (as explained in detail in Chapter 6). Despite this, a clear-cut understanding of how to realize the full potential of SNGs for pursuing these agendas, and how to create an “enabling environment,” is still lacking. The purpose of this publication is therefore to examine and discuss the linkages between core concepts of decentralization and local governance (DLG) on the one hand, and the requirements and aspirations of these global agendas on the other. As the title indicates, the 2030 Agenda and its 17 SDGs are at the center of our exploration of how shaping decentralization reforms can help build momentum for the pursuit of national objectives. We strongly believe that having clarity on this enabling environment will be crucial to overcome and gain lessons from the pandemic and to again accelerate progress toward achieving the 2030 Agenda.

Responses to the pandemic have in many cases relied on SNGs. Either proactively or based on policies and directions of higher levels of government, SNGs have implemented restrictions on mobility, mobilized quarantine and treatment facilities, and conducted mitigation measures within the limits of their resources. SNGs have also been instrumental in rolling out social safety net or cash payment programs funded by the national governments.<sup>4</sup>

A reflection of the role of SNGs in dealing with the COVID-19 pandemic echoes many of the arguments raised in the context of the localizing SDG discourse. SNGs enjoy proximity to their communities and local civil society organizations, they have information advantages regarding conditions and potentials at the local level, and their decision-making processes can be fast. They also have

the ability to quickly identify priority issues which need the attention of public institutions at the local level, and to mobilize local resources to complement the means provided by higher levels of government (UCLG-ASPAC 2020, Ferrazzi et al. 2020).

This introduction will briefly clarify core concepts of the DLG discourse, explore the linkages between the mentioned global agendas and DLG, and explain our interpretation of the enabling environment needed to allow a full and meaningful involvement of SNGs in national Agenda 2030 strategies. The final section will describe the structure of the publication, and the linkages between the different chapters.

## **Conceptual Issues Related to Decentralization and Local Governance**

Since decentralization appeared on the international agenda of public sector reforms and on the agenda of international development agencies (Rondinelli et al. 1983; Smith 1985; Litvack et al. 1998), numerous scholarly and policy-oriented works have scrutinized the issue from different angles. Recent publications have discussed reform design and implementation issues (Smoke 2015a, b, Manor 2013, Mueller 2015, OECD 2019), fiscal decentralization in Asia and elsewhere (Ichimura & Bahl 2009, Martinez-Vazquez 2011; World Bank 2020), and the linkage of DLG with democratization, accountability, and political participation (Öjendal & Dellnäs 2013; Faguet et al. 2015). A strong thread in the deliberations has been the intended and actual effects of DLG reforms on the delivery of public services (see, e.g., LDI 2013, Birner & von Braun 2009, Brosio 2014, Faguet & Pöschl 2015; for Asia: Ghuman & Singh 2013; for South Asia: World Bank 2019). Functional assignment (Ferrazzi & Rohdewohld 2017) and the political economy of DLG reforms (Manor 1999, Eaton et al. 2011) are related issues which have attracted the attention of academics and development practitioners. Frequently, bilateral and multilateral development organizations have analyzed the support they provided for DLG reforms in recipient countries. Through this, they have contributed to the conceptual development and understanding how DLG reforms can shape public service delivery and the relationship between the state and its citizens (see, e.g., OECD/DAC 2004, DPWGLGD 2007, NORAD 2008, World Bank 2008; more recently: Dickovick 2013, EC 2016, Rodden & Wibbels 2019).

The term “decentralization” can have different meanings. It can refer to a *process of state reform*, where a hierarchical, centralized system of political and administrative state institutions is being replaced by more decentralized and dispersed arrangements involving two or more levels of government. Decentralization can also denote the *resulting situation or status* after such reform initiatives. A “decentralized state” is a state with more than one level of government and administration, with each level having specific roles and responsibilities.

B.C. Smith provided one of the earliest definitions of the term, defining decentralization as “both reversing the concentration of administration at a single

centre and conferring powers of local government” (Smith 1985:1). Another classical definition comes from Rondinelli et al. (1983), who regarded decentralization as:

the transfer of responsibility for planning, management and resource raising and allocation from the central government and its agencies to: (a) field units of central government ministries or agencies, (b) subordinate units or levels of government, (c) semiautonomous public authorities or corporations, (d) area wide, regional or functional authorities, or (e) nongovernmental private or voluntary organizations.

(p.13)

This definition by Rondinelli et al. includes the main modalities of decentralization as they can be found in the literature today: *devolution*, *delegation*, and *deconcentration*.<sup>5</sup> Another approach to understanding decentralization distinguishes three dimensions: *political decentralization*, *fiscal decentralization*, and *administrative decentralization* (see Fig. I.2). Any examination of the concept of decentralization and its effects needs to clearly distinguish these different modalities and dimensions. A globally accepted interpretation of decentralization can be found in the 2007 UN Habitat’s Resolution 21/3 (*Guidelines on Decentralization and Strengthening of Local Authorities*) which also describes different facets of decentralization, such as political representation, public participation, local autonomy, accountability toward citizens, and transparency (UN Habitat 2009).

In practice, countries often use different modalities of decentralization simultaneously, sometimes without acknowledging them as a particular modality. This can lead to misunderstandings and confusion, as the different modalities have specific implications, for instance, regarding financing, human resources management, the degree of subnational autonomy, and required arrangements for oversight and control of SNGs by higher authorities (see Table I.1).

*Devolution* is, in a way, the most powerful and complex modality of decentralization. It shifts fiscal powers and decision-making responsibilities to SNGs. SNGs are granted substantive decision-making authority as “decentralized governments would be entirely responsible for the supply, the quality and the characteristics of production of the allocated tasks, and for their finance” (Dafflon 2006:292). It is complex because political, fiscal, and administrative arrangements must be in place for devolution to work. Often used synonymously with decentralization, devolution involves the existence of an elected representative body at the subnational level which takes decisions (e.g., on local budgets and development plans or local public investments) and represents the citizens vis-à-vis the local administration, higher levels of SNG, the nation state, or other legal entities.

Because such a representative body requires elections, devolution has a much more political flavor than delegation or deconcentration, which are more in the realm of public administration and thus might be regarded as non-political and non-partisan. Devolution is closely linked with political decentralization. The legal framework for devolution can be extensive; along with a core local



*Figure I.2* Notions of Decentralization.

Source: Authors.

government act, it will require stipulations in sector, public finance, civil service, and election laws. Often, constitutional stipulations set the framework for the role and mandates of the SNG levels, which are then spelled out in detail in decentralization laws or local government acts.

Proximity of local authorities to citizens is the cornerstone on which the devolution concept is built. Due to this proximity, local authorities are assumed to be better placed than the central government to ensure that resource allocation is efficient and responsive to local preferences. Effective accountability mechanisms are crucial to translate capacities and resources into an allocation pattern responsive to citizens' demands and conducive to quality services.

When a function is devolved to a subnational level, the SNG becomes fully responsible for implementing this function. This requires adequate financial, technical, and human resources, and the political willingness and institutional capacity to implement the function. The fiscal and legal framework must include corresponding arrangements such as the assignment of taxes and other own-source revenues to SNGs, fiscal transfer systems, effective systems of legal supervision and general oversight, and civil service arrangements.



Table I.1 Modalities of Decentralization

	<i>Decentralization</i>	<i>Delegation/Agency Tasks</i>	<i>Devolution</i>
<i>Instrument</i>	Ministerial decree, circular, administrative notification.	Law, regulation, government decree, or ministerial decree/circular.	Constitution, law, and related regulations.
<i>Source and Receiver of Authority</i>	Delegated from the ministry to its own dispersed branches or field offices. When an SNG official has dual roles, other sources might be involved.	From the representative body or ministry/agency to the SNG or special agency.	From the state- or central-level representative body to the SNG.
<i>Funding</i>	From the ministry to its branches directly (does not show in SNG budget).	From the assigning entity to the SNG/ special agency. In some cases, funded from broader transfers that are deemed to be sufficient to cover delegated tasks.	To the receiving level through assigned revenues, block grants, or conditional grants/earmarked transfers.
<i>Staffing</i>	Branch staff are central-level civil servants and part of the ministry establishment. Their duties may include coordinating with SNGs. When an official has a dual role, he or she is part of the SNG executive arm.	SNG/special agency has own staff but operates under a national frame. May also use seconded staff of central government.	SNG has own staff but operates under a national frame; usually has a degree of discretion in hiring, firing, size of establishment, etc. if administrative decentralization is part of the arrangement. May also use seconded staff of central government who are treated essentially as SNG staff.
<i>Discretion for Structuring Internal Organization</i>	Branches are structured by the ministry, though often approved at cabinet or higher level.	SNG/special agency can shape their units within a national frame, and handle tasks in/within units of their choosing.	SNG can shape their units within a national frame, and handle functions in units of their choosing.

(Continued)

*Table I.1 Continued*

	<i>Decentralization</i>	<i>Delegation/Agency Tasks</i>	<i>Devolution</i>
<i>Implementation Discretion</i>	Variable but usually limited by ministry regulations, procedures, standards, and instructions. May be considerable ad hoc guidance.	Considerably constrained by policy, procedures, and standards set by assigning entity; some discretion on implementation in some cases.	High degree of discretion, but may be limited somewhat by national standards.
<i>Reporting/Accountability</i>	The branch/official is accountable to ministry headquarters.	The SNG is primarily to the assigning entity, but also to the SNG representative body and citizens.	The SNG is primarily responsible to citizens through the SNG representative body; vertical accountability remains and in principle is more pronounced in early stages of decentralization.

Source: Ferrazzi and Rohdewohld 2017.

Devolution is probably also the costliest of the three modalities, considering the costs of conducting local elections, funding requirements of the representative bodies, and transaction costs associated with the coordination and steering requirements of a decentralized, multi-level governance system.

*Delegation* is the transfer of decision-making and/or implementing authority from a level of government or a specific agency to a SNG, a special purpose body at the subnational level,<sup>6</sup> or a non-public sector entity such as a private enterprise or a civil society organization. It incorporates a principal-agent relationship, with the center as the “principal” and the SNG as the agent (Dafflon 2006:293). Some countries, such as Cambodia, use the term “agency task,” which reflects the principal-agent relationship of this modality. Delegation can provide the agent with a certain degree of discretion in discharging the transferred tasks, but normally the agent is guided and restrained by the delegating entity. The delegating entity furthermore needs to provide the financial resources to carry out the delegated tasks; accountability of the agent is toward the delegating entity.

Often, delegation takes place by a higher level of government—such as the national, state, or provincial level—transferring tasks to a lower-level district or municipality. But delegation can also take place horizontally, or even in an upward direction.<sup>7</sup>

*Deconcentration* can have two different manifestations. First, it is “understood as transferring decision-making authority within a central government organization (usually a sector administration constructed as a ministry) from its headquarters to field offices of the same organization” (Ferrazzi & Rohdewohld 2017:14). Field offices may be linked to territorial units of the state, such as an education district office which has jurisdiction within the territorial boundaries of its district only. In some cases, the territorial boundaries of deconcentrated offices include more than one territorial unit or have different territorial boundaries altogether.<sup>8</sup> Deconcentration takes place within the sector administration, and normally does not require a high-level legal instrument. Often, it is arranged as part of internal decisions about the administrative setup in a sector, which then determines the respective roles of the national head office and of the deconcentrated field offices. Deconcentrated staff remain part of the staff establishment of the sector administration, and the national budget allocates financial resources to the sector administration. This also means that the deconcentrated offices are accountable to the national head office, and consequently to the national legislative body, rather than to the local population or communities which they serve.

The second manifestation of deconcentration involves a dual role of an elected official or public employee acting simultaneously on behalf of the subnational entity and the central government. In Cambodia, for example, the district or provincial governor is the executive head of the local administration and is responsible for implementing decisions taken by the elected local council. At the same time, the governor represents the national government at the subnational level.<sup>9</sup> This dual role also generates a double line of accountability: one to the elected council (and further on to the local community), and one to the national government. In the same way, the provincial governor and the head of a district

(*kabupaten*) or city in Indonesia, who are elected at the subnational level, have tasks and functions in which they represent the president and are accountable not to the elected subnational body but to the national level.<sup>10</sup>

These three modalities have their own specific implications (see Table I.1) with their own advantages and disadvantages. Whether one is considered better or more appropriate, depends on the objectives pursued. *Devolution* is most effective for achieving political participation and representation and strengthening primary accountability to citizens. *Deconcentration* and *delegation* can also increase citizen participation in planning and budgeting and foster the improvement of local service delivery.<sup>11</sup> Sometimes, deconcentration and delegation are used as a prequel for devolution to build up local technical and managerial capacity (see Romeo 2013).

The design of local government systems, and therefore of reforms modifying such systems, must be shaped by the underlying reform objectives: Is it about empowering communities and bringing government closer to the people? Is it about rebuilding the state after an internal conflict? Is it about improving service delivery? The answers to these questions will help policy makers decide on a preferred modality of decentralization, and whether a combination of modalities is perhaps the most appropriate option.

In recent years, decentralization has also been examined in the context of multi-level governance concepts. These concepts focus on the interdependence of two or more levels of government requiring a significant degree of horizontal and vertical coordination and cooperation. Charbit and Michalun call this a

complex relationship. It is simultaneously vertical (across different levels of government), horizontal (among the same level of government) and networked, as the lines of communication, and coordination for a given policy objective may crisscross, involving multiple actors and stakeholders in the public as well as the private sector and citizenry.

(Charbit & Michalun 2009:8)

Before we proceed further with outlining the purpose and conceptual approach of this publication, it is advisable to clarify two other key terms which we will use throughout the book:

- We will use the term “subnational government” (SNG) to denote the level of government which is regulated either by the central (national) level or, in a federal setting, by the level having jurisdiction over lower-level government affairs (such as a state or province). In most cases, SNG is synonymous with “local government.”<sup>12</sup>
- We will use the term “local governance” when we discuss the quality of governance at the local level. This may include the manifestation and quality of political participation, transparency, and accountability between the local state (elected representatives and local government officials) and the citizens; inclusiveness of the decision-making process at the local level; and other qualitative measurements.

## **Linking Decentralization and Local Governance Reforms and Global Agendas**

2015 was a watershed year for the international development agenda. After three years of debate, the United Nations General Assembly adopted the 2030 Agenda for Sustainable Development (UN 2015a). In Paris, the 21st Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC) reached a historic agreement to combat climate change and to accelerate and intensify actions and investments needed for a sustainable, low-carbon, and resilient future. The United Nations Framework Convention on Climate Change, better known as the Paris Agreement (UN 2015b) and its related decisions on implementation opened a new era of universal, ambitious, and inclusive action to tackle climate change and cope with its effects. Finally, the New Urban Agenda (NUA) (UN 2017) that came out of the Habitat III Conference held in Quito in October 2016 closed the circle of global agenda renewal. It constitutes a major element for the implementation of the local dimension of the 2030 Agenda and will guide policies, approaches, and efforts around urbanization during the next 20 years. If this entire global post-2015 framework is to be implemented successfully, subnational (local and regional) governments will have to play a significant role.

Subnational local governments have been increasingly recognized as crucial actors in achieving effective development results. Due to their proximity to citizens and their potential responsiveness to local needs and priorities, local governments play a crucial role in the delivery of basic public services such as water, education, or health care. Their role is equally important in regard to economic development, adaptation to climate change, urbanization, and enhancing gender equality. The crucial role of the local level is reflected in SDGs 9 (“Build resilient infrastructure, promote sustainable industrialization and foster innovation”), 10 (“Reduce inequality within and among countries”), 11 (“Make cities inclusive, safe, resilient and sustainable”), 5 (“Achieve gender equality and empower all women and girls”), and 16 (“Promote just, peaceful and inclusive societies and effective and accountable institutions at all levels”). The role of local governments is also implicit in the majority of the other goals and related targets. Exactly what form the involvement of SNGs will take in achieving the SDGs is at the center of the international discourse on localizing SDGs and needs to be determined within the national context.

The important role of local governments is also acknowledged in the Addis Ababa Action Agenda (AAAA) (UN 2015c). Article 34 emphasizes that, as the subnational level often lacks adequate capacities, investments need to be devolved and support given to local governments for mobilizing revenues at the subnational level. Furthermore, the AAAA states that international cooperation must be scaled up to strengthen the capacities of municipalities and local authorities. Building on this recognition of their important role in financing and implementing the SDGs, it will be crucial to provide local governments with the means and autonomy needed to raise adequate revenues, including permission to levy

taxes and the ability to access long-term development finance and international financial markets.

Climate change and development are closely intertwined, and mitigating and adapting to climate change is crucial for promoting global development. Local and SNGs are inextricably linked to the causes and effects of climate change. Adaptation measures are often local by default; they have a certain spatial/territorial dimension, and therefore might fall within the jurisdiction of SNGs.

The NUA constitutes a major element for the implementation of the local—and more specifically urban—dimension of the 2030 Agenda, as manifested in SDG 11 (inclusive, safe, resilient, and sustainable cities and human settlements) and in the significant number of linkages with other SDGs (UN Habitat 2020:140). It seeks to create a mutually reinforcing relationship between urbanization and development and offers guidance on a range of “enablers.” These include “development enablers” such as national urban policies, laws, institutions and systems of governance, and the urban economy; and three “operational enablers”: local fiscal systems, urban planning, and basic services and infrastructure. Underneath the technocratic solutions of economics and governance, normative concepts such as democratic development, respect for human rights, equity, safety and security, and the relationship between urbanization and the environment feature prominently. In short, the NUA is seen “as an accelerator” of the SDGs (ibid.:x).

The NUA has a special appeal for Asia, given the region’s rapid rate of urbanization. Almost half of the world’s urban residents live in Asia, and the speed of urbanization in Asia is much higher than past urban development, for example in Europe (see ADB 2014a, ADB 2014b, and Susantono and Guild 2021). According to UN Habitat data, most metropolitan areas are in the Asia and Pacific region (especially the People’s Republic of China and India) (UN Habitat 2020:xii). Cities in Asia—as elsewhere—are often the hub for economic growth and the center of social and technological innovations.

What do these global agendas have to do with decentralization and local governance? What are their implications for local-level actors and processes, and what can and needs to be done to localize these agendas and ensure that the local level is able to contribute to their achievement?

Politically, the intensive debate on these global agendas has helped to advance SNGs and their national, regional, and global associations as accepted and recognized stakeholders in international discussions and agreements. SNGs are policy makers and catalysts of change, and are best placed to link global goals with the needs and potentials of local communities. Development goals can be reached only if local actors fully participate not only in implementing the goals, but also in setting and monitoring global and national agendas. Thus, all the current global development agendas stress the importance of working at subnational and local levels, and envision a significant investment of time and resources to enhance local capacity and partnerships. In fact, as Nakhoda et al. (2016) pointed out, local governance systems have untapped resources and knowledge essential for implementing global agendas.

The political rhetoric of “localizing the SDGs” has been widely accepted by the international community and many national governments. However, there

has been little deeper analysis of the required nexus between fiscal, political, legal, and institutional arrangements for SNGs. Nor has there been adequate analysis of their involvement in national policy arenas for national SDG strategies, or of the need for locally disaggregated data systems on the one hand, and the effectiveness of SDG localization strategies on the other hand. As a proxy or placeholder, the notion of an enabling environment has become prominent during the recent years; but like the term “decentralization,” the term “enabling environment” can also have an array of different meanings. The principal theme of investigation in this publication is the extent to which the existing legal, political, fiscal, and institutional framework for SNG allows them to contribute effectively and meaningfully to national SDG strategies and targets. We use a set of four main dimensions for describing the required enabling environment: (i) clearly defined functions and responsibilities for SNGs; (ii) SNG participation in policy arenas dealing with national SDG strategies, such as national SDG commissions and voluntary national review (VNR) processes; (iii) vertically integrated planning and budgeting systems tailored to the functional jurisdiction of the SDGs; and (iv) monitoring and evaluation (M&E) processes and data systems which capture local SDG achievements and support national monitoring processes. We argue that in many developing countries in Asia and the Pacific, these four dimensions need to be dealt with as part of the localizing SDG discourse; in fact, the localizing SDG discourse seems meaningless unless these dimensions are considered.

The localizing SDG discourse is highly relevant for the Asia and Pacific region. The global report by UCLG on the localization of global agendas (UCLG 2019) illustrates the commitment of the Asian and Pacific states to the 2030 Agenda, but also the uneven status of progress toward achieving the SDG targets and the diversity of institutional and political arrangements for the involvement of SNGs. This is a challenge for the Asian Development Bank (ADB) as a regional development bank and as a key actor in regional knowledge sharing. As the foreword to this publication by ADB’s Managing Director General indicates, the institution has realized the need to accelerate the momentum for more coordinated efforts which involve the subnational levels. The COVID-19 pandemic made it more urgent to increase regional, cross-country exchange on governance and institutional innovations in the context of localizing the 2030 Agenda—something which is often missing in the established intergovernmental cooperation platforms in the region, such as the Association of Southeast Asian Nations (ASEAN) or the South Asian Association for Regional Cooperation (SAARC). As a regional knowledge broker, ADB is well placed to intensify such an exchange and to allow government officials and other stakeholders to tap into the knowledge existing in the region.<sup>13</sup>

## Structure of the Publication

The chapters of the publication are divided into two main parts: the first part (Chapters 1–7) will look at conceptual and thematic issues. While anchored in existing theories and empirical research on decentralization and fiscal federalism (see, e.g., Oates 1972, Weingast 2014, OECD 2020), these chapters will use

empirical, country-specific findings and observations to examine such theories. Where possible, they will examine design and implementation features (such as planning and budgeting and the clear allocation of functions) which help make DLG reforms effective for accelerating the achievement of the SDGs. The second part (Chapters 8–12) will discuss conceptual and thematic issues in the context of selected countries from the Asia and Pacific region. This combination of theoretically grounded thematic chapters with a more in-depth exploration of real-life country cases is expected to shed clarity on the core issue of the publication: how the details of the DLG arrangements can facilitate (or hinder) the full involvement of SNG in localizing SDG strategies. The countries selected come from major subregions, such as South Asia (Nepal), East Asia (Mongolia), Southeast Asia (Cambodia and Indonesia), and Central and West Asia (Pakistan).<sup>14</sup>

Most of the publication's content originates from material developed for an e-learning course on *Decentralization, Local Governance, and Localizing SDGs in Asia and the Pacific*.<sup>15</sup> However, both the scope of topics included and the depth of conceptual analysis have been expanded. Chapter 4 (on local planning and budgeting) and Chapter 9 (on Indonesia) are entirely new contributions. All chapters strive to push forward a debate on good practices in DLG at a time when multi-level governance systems in Asia and the Pacific need to accelerate their joint efforts on achieving the SDGs by 2030.

Chapter 1 (on political and administrative decentralization) and Chapter 2 (on fiscal decentralization) examine the three key dimensions of decentralization mentioned earlier. Chapter 1 starts with the context factors and with the often less conclusive evidence underlining the success (or failure) of DLG reforms. As emphasized by the literature on DLG, it is the “context” and “design” of DLG reforms which determine the outcome of such reforms. An important aspect is the effectiveness of accountability mechanisms which reduce or facilitate “elite capture” and thus influence whether the benefits of decentralization can emerge. The chapter also addresses the link between DLG and gender, arguing that gender equality will not come automatically as part of DLG reforms, but needs to be aimed at and purposely factored into the design of such reforms and into their implementation strategies. Chapter 2 deals with the main pillars of fiscal decentralization: expenditure responsibilities, revenue assignments, intergovernmental fiscal transfer systems, and borrowing by SNGs. The chapter indicates the diversity of arrangements in the Asia and Pacific region. An important argument is the call for stability and predictability of SNG financing which, despite elaborate legal arrangements, is often lacking.

Chapter 3 illustrates how the scope of local planning and budgeting is determined by the governance context specific to each country and the way service delivery is shared between tiers of governance. This last aspect is explored in more detail in Chapter 4 on sector decentralization and functional assignment. This chapter re-visits the aspect of reform design, arguing that clarity on the legal mandates for sector functions is a key for effective service delivery by SNGs. The concept of functional assignment is described using examples from countries in Asia where the concept has increasingly found traction since its relevance was



recognized in the context of Indonesia's "Big Bang" decentralization in 1998–1999. The chapter also looks in more detail at two meta studies which analyze the effects of DLG reform for the health and education sectors.

Chapter 5 continues the conversation on how the impacts—intended or unintended, positive or negative—of DLG reforms can be assessed in a methodologically robust manner. The chapter describes the multi-level, multi-sector nature of such reforms, and what it means for clearly linking observable effects with reform interventions. The chapter furthermore elaborates on the need for effective accountability mechanisms in a decentralized setting. It describes some of the mechanisms which can be found in Asia, such as social audits, minimum service standards, and the linking of fiscal transfer systems with performance.

Chapter 6 on localizing SDGs in Asia and the Pacific deals with the core theme of the publication: the understanding and status of localizing SDGs in the region, and how this is linked with the political, legal, fiscal, and institutional framework for SNGs. The notion of the enabling environment is taken up again and developed further. The chapter furthermore analyzes the implications of the COVID-19 pandemic and describes ADB's alignment with the 2030 Agenda and its 17 SDGs.

Chapter 7 deals with an aspect that is easily neglected but has been identified by Smoke (2015b:255) as a crucial factor for the effectiveness of DLG reforms: the planned and consistent implementation of such reforms. The chapter argues that a coherent reform strategy and implementation road map, which covers the essential building blocks of DLG reforms in a systematic and holistic manner, contributes significantly to making DLG reform a success. Taking up the understanding of DLG reforms as deeply political reforms (as highlighted in Chapter 1), the chapter also looks at the political economy of such reforms and at the interests of different stakeholders involved that shape and influence the reform design, sometimes leading to inconsistencies and less optimal design decisions.

The second part of the publication consists of five chapters which analyze the existing decentralized, multi-level systems of Cambodia, Indonesia, Mongolia, Nepal, and Pakistan, thus covering several subregions and including both federal and unitary states. The country chapters follow a common structure which considers the constitutional and legal framework for SNGs and their core functions, existing institutional arrangements at the national level for managing and guiding SNGs and achieving intergovernmental coordination, the performance of SNGs, and how this is being measured. The country chapters also examine the political, institutional, and operational framework for the national 2030 Agenda and for localizing SDGs, including an assessment of the four elements of the enabling environment discussed in Chapter 6 (legal mandates, policy arenas, planning and budgeting systems, and data and M&E systems). In outlining current challenges for SNGs, the chapters also examine responses to the COVID-19 pandemic and whether any lessons can be learned for strengthening the existing multi-level arrangements.

The concluding chapter highlights major implications of the preceding chapters' deliberations for accelerating progress toward achieving the SDGs by 2030.

These refer to the need to strengthen the functionality of multi-level governance systems, strengthen the role of SNGs in the provision of public services, and leverage well-structured and balanced multi-level governance systems in pursuing the 2030 Agenda and its 17 SDGs.

## Notes

- 1 For instance, greater progress has been made toward health and wellbeing (SDG 3) and industry, innovation, and infrastructure (SDG 9), while the region has regressed on the critical goals of climate action (SDG 13) and life below water (SDG 14). On other goals such as no poverty (SDG 1), zero hunger (SDG 2), quality education (SDG 4), reduced inequalities (SDG 10), and partnerships (SDG 17), current progress is not sufficient (ESCAP 2021).
- 2 See ESCAP 2021:28–48 for a detailed overview of social and economic impacts of the pandemic. The PRC; Taipei, China; and Viet Nam were the only economies in developing Asia with a positive GDP growth in 2020 (ADB 2021b:10).
- 3 Remarks by Masatsugu Asakawa, President, Asian Development Bank, at the “SDG Dialogues—A Decade of Action: Enabling the SDGs” (7 April 2021).
- 4 See the examples of Mongolia (Chapter 10) and Pakistan (Chapter 12).
- 5 The fourth modality mentioned by Rondinelli (privatization) has largely been absorbed into the debate about the role of the state vis-à-vis the private sector and civil society, and the role of the public sector (“New Public Management”).
- 6 For instance, the 2019 Local Government Act of the Province of the Punjab (Pakistan) allowed local governments to delegate the discharge of functions to a so-called “Joint Authority” which can be established by two or more local governments with or without the involvement of the provincial government.
- 7 For example, the 2019 Local Government Act of the Province of the Punjab in Pakistan included the option for local governments to delegate functions to another local government, or to another office or agency operated by the provincial government, i.e., upwards (Janjua/Rohdewohld 2019).
- 8 For instance, the “operating districts” of the Cambodian health sector are not congruent with the political and administrative districts as regulated in the 2008 Organic Law.
- 9 See Chapter 8 on Cambodia.
- 10 See Chapter 9 on Indonesia.
- 11 In both cases, however, this would require a certain degree of autonomous decision-making by the de-concentrated offices, respectively the “agents.”
- 12 Often, the distinction must be country-specific. For instance, in Indonesia (a unitary state) the provinces are regarded as SNGs. In Pakistan and India (both federal countries), provinces or states would not be regarded as SNGs as they have jurisdiction for local government affairs. The term SNG as it will be used here is similar to the terminology “local and regional government” which has come into use more recently (e.g., in reports published by UCLG and its regional chapters).
- 13 Under its TA 9387-REG *Strengthening Institutions for Localizing Agenda 2030 for Sustainable Development*, ADB had organized two regional webinars on how the COVID-19 crisis has challenged resilience and functionality of multi-level governance systems in Asia. Recordings of the webinar can be accessed at <https://www.delog.org/news/details/recording-and-slides-of-delog-adb-login-asia-and-gizs-webinar-on-policies-and-strategies-post-covid-19-how-to-strengthen-multi-level-systems-in-asia-now-available>
- 14 The one subregion not covered here is the Pacific, or more precisely the small island states in the Pacific-Oceanic area. Local governments operate in more than

20 countries across these islands, facing specific challenges such as their small size, fragile local economies, and lack of human resource capability (Hassall et al. 2019). Formal government structures “operate in parallel with customary chiefdoms,” but there is also “a high level of consultation amongst the community” (UCLG 2019:26).

- 15 The course was conducted twice, in 2020 and 2021. ADB offered the course to staff and to government officials of developing member countries (DMCs) as well as representatives of other development partners and civil society organizations in the Asia and Pacific region.

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# 1 Political and Administrative Decentralization in Asia and the Pacific

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## Overview

The introduction explained our understanding of the term “decentralization” and of its different modalities and dimensions which we will apply in this publication. Clarifying our perception and interpretation is important as the interpretation of the term “decentralization” in the public and academic debate can vary greatly (Divay 2012), depending on the country context and the country’s history of administration. Sometimes, language can also make a difference; for example, in French-speaking countries the term “décentralisation” usually means the same as the English term “devolution.” The resulting cacophony of terms can make discourse about the concept, its advantages, and its disadvantages sometimes messy.

In this chapter we place the discussion of two dimensions of decentralization (*political decentralization* and *administrative decentralization*) in the context of the often inconclusive and contradicting evidence about the effects of decentralization. In regard to political decentralization, we will discuss the issues of elite capture and clientelism, examine the role and functionality of the political parties as a crucial element in making devolved systems work, and explore the linkage between decentralization and gender. Administrative decentralization is closely linked with sector decentralization, which is discussed at length in Chapter 3; here, we concentrate on some of the strategic issues. Finally, we provide a brief summary of decentralization and local government reforms in the Asia and Pacific region, and what distinguishes the region from other parts of the world.

## 1.1 Context Factors for Decentralization and Local Governance Reforms

The issues, challenges, and complexities of decentralization and local governance (DLG) remain very much the same in both federal states and unitary states. Federal structures do not necessarily have more decentralized systems at the local level than unitary states; some federal states are in fact highly centralized (Bhattacharyya 2010).

In federal states, sovereignty is constitutionally divided between the central level and subnational tiers of government such as provinces (as in Pakistan and Nepal) or states (as in India), with each tier having certain specified areas of



jurisdiction. Depending on the constitutional arrangements, either the federal level or the state/province level has jurisdiction over local government affairs and thus decides on the role and significance of local bodies. For instance, Part IX and Part IXA of the Constitution of India contain detailed stipulations on local government affairs, thus giving the states (which passed their own local government legislation) relatively little discretion to alter arrangements. In contrast, Art. 140A of the Constitution of Pakistan requires the provinces only to devolve political, fiscal, and administrative authority to local governments, but it is silent about the details. In other words, it does not provide guidance about the tiers and categories of local governments, the scope and depth of functions to be devolved, the fiscal decentralization arrangements, and so on. Consequently, after 2013 the local government systems of Pakistan's four provinces looked vastly different from each other.<sup>1</sup> In Nepal, which became a federal state with the new 2015 Constitution of Nepal, only the federal level has jurisdiction over local government affairs, although the newly established provinces (as federating units) have a substantial degree of legislative jurisdiction in other policy fields. The Constitution of Malaysia allows the federal states to enact local government legislation based on the existing national "parent" legislation (such as the 1976 Local Government Act) although this has not happened yet (CLGF 2018a).

Nation-states may have substantially different motives and rationale for engaging in decentralization reforms. In many cases, the official justification for decentralization is to improve public services at the local level, and/or to empower local communities. Some nation-states use the theory of fiscal federalism (Tiebout 1956, Oates 1972, Weingast 2014) to reason that a decentralized system will result in better services. Others use political arguments such as national stability and unity, reconciliation after conflicts, and state-building. Another general argument which has been used around the world is the principle of subsidiarity, i.e., the notion that state functions should be undertaken by the lowest level of the state organization that can do so effectively and efficiently.<sup>2</sup>

Proponents of decentralization argue that political decentralization, accompanied by fiscal and administrative decentralization, can contribute to pro-poor economic growth, pro-poor service delivery, and social equity (redistribution of income at the local level) by improving allocative efficiency, i.e., matching public services to local preferences. Expected positive outcomes of decentralization reforms include better service delivery, efficiency gains, increased democratic participation, improved political empowerment of communities and citizens, more effective accountability mechanisms, and greater transparency, among others. There is empirical evidence supporting these expected positive outcomes (see below).

However, there is also ample evidence that decentralization can produce negative outcomes. Elite capture might result in increased inequality and lack of responsiveness. The lack of managerial and technical capacity at the local level could result in reduced quality and quantity of services. Other potential negative



effects include increased political competition and therefore political instability, lack of fiscal discipline, reduced capacity to react to external shocks at the national level, and lack of coordination between levels of government. From a sector-specific perspective, for example, concerns have been raised in the context of networked water and sanitation systems about “relinquishing the opportunity to address externalities and capitalize upon economies of scale” and reducing opportunities for cross-subsidization across income groups (Carter & Post 2019:235f).

Comprehensive meta studies (such as LDI 2013, Faguet 2014) have highlighted the complexity of measuring and empirically verifying the impacts of decentralization reforms. Meta studies on sector decentralization in health and education around the world found a great variety of positive and negative outcomes (Munoz et al. 2017, Channa & Faguet 2016). For Asia, Ghuman and Singh (2013) looked at 32 studies meant to measure the effects of decentralization in 8 service sectors (e.g., education, health, roads): in 13 studies, the impact of decentralization on service delivery was found to be positive; 11 studies reported negative effects; and 8 studies showed mixed results. Chapter 5 deals in greater detail with the complexities of monitoring and evaluating the effects of decentralization; here, it suffices to emphasize that there is often no linear and clear-cut causality between DLG reforms on the one hand, and improved service delivery on the other hand. The simple equation “decentralization = better service delivery” apparently does not hold true.

Numerous caveats and conditionalities need to be ensured before decentralized (and even more so, devolved) systems can produce results which are superior to centralized systems. Policymakers need to consider apparent trade-offs between different design elements of decentralization reform; for example, giving subnational governments (SNGs) more autonomy might increase political participation and responsiveness to local needs but might also jeopardize national objectives, reduce policy coherence, and create inequalities. Keeping a tighter central grip on service delivery and the related budget allocations to ensure the production of essential services might hinder the intended local adaptation of service delivery.

The conclusions from the literature for making decentralization successful are therefore twofold (see Smoke 2015a, b; Ferrazzi & Rohdewohld 2017:23):

- (i) *Context matters.* Reforms must properly reflect national and country-specific circumstances such as their social, political, and economic trajectories. The causal relationship between interventions in one of the many interlinked factors and the expected improvement of service delivery is complex, and such interventions must be carefully assessed in view of their implications for reform implementation and expected results (see Figure 1.1). Obviously, not all context factors can be addressed at the same time; however, it is important to keep them in mind, and to design and follow through on a sequential reform trajectory that covers the most

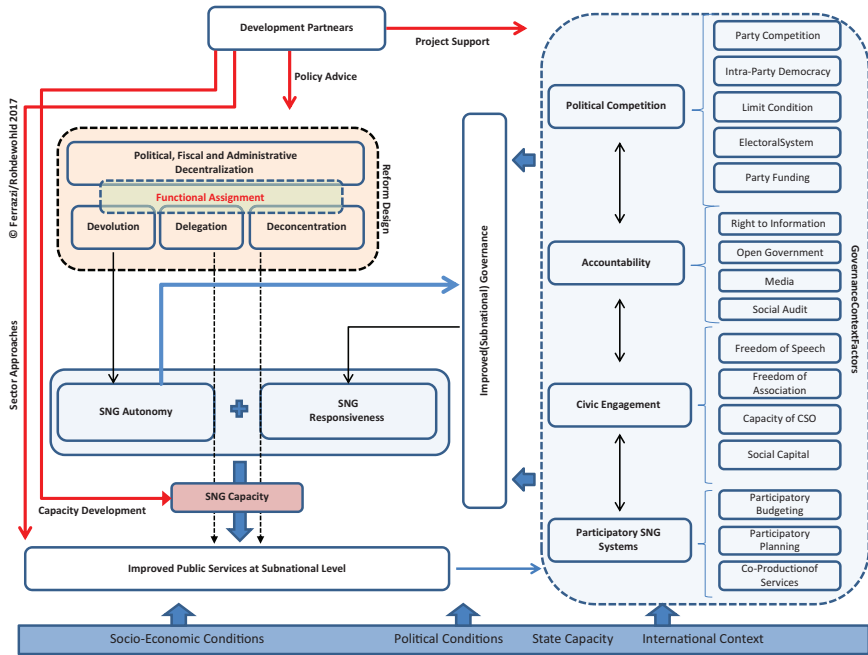


Figure 1.1 Context Factors of Decentralization.

Source: Ferrazzi and Rohdewohld (2017:30).

important ones. Stakeholder involvement and clear and transparent communication are crucial.

- (ii) *Design matters.* The design of the reform(s) such as the informed use of modalities and dimensions of decentralization, the sequencing of reform steps, the comprehensiveness of reforms, and the availability and use of learning loops significantly influence the positive and/or negative impacts of reform. The design of local government systems, and therefore of reforms modifying such systems, is shaped by the underlying reform objectives: is it about empowering communities? Is it about reducing service-delivery costs? Is it about improving service delivery at the local level? Is it about fragmentation of the political and administrative setup of a country in order to maintain the power at the central level (“divide and rule”)? Is it about involving political opponents in a sort of power-sharing arrangement where two or more political blocs can share the political and fiscal spoils and co-exist without serious conflicts? Is it about reconciliation and state-building after a conflict? Or is a combination of such motives at play, therefore influencing the design of subnational systems and perhaps creating a conflicting and contradictory mix of measures?

The findings of the empirical research point to the need to approach decentralization and local government reforms in a comprehensive and holistic manner, where all the important building blocks of such 'whole of government' reforms are covered and dealt with in a planned and systematic manner. In other words, besides their design, it is also the implementation path of such reforms that significantly shapes and determines future effects (Smoke 2015a). A recent study by the World Bank highlighted the occurrence of "partial decentralization" and argued that the apparent lack of results in South Asia (in terms of improved public services) can often be explained by the fact that "decentralization has not gone far enough. Key decisions are still taken by higher levels of government" (World Bank 2019:37).

Typical building blocks of decentralization reforms include:

- Legal reforms to clarify the assignment of mandates, functions, and powers between different tiers of government, based on informed choices about the different modalities of decentralization and the subsequent arrangements for the political, fiscal, and administrative dimensions.
- Creating or adjusting adequate electoral systems, i.e., decisions about electoral constituencies, election systems, and the role and influence of existing parties.
- Revamped fiscal transfers and revenue arrangements.
- Revamped civil service arrangements.
- Appropriate capacity development strategies.
- A revamped supervisory and monitoring system whose results can be used to fine-tune the decentralization reforms in line with the intended impacts.

Linking the different dimensions of decentralization—political, administrative, and fiscal—is essential (see Box 1.1).

#### **BOX 1.1 LINKING THE DIMENSIONS OF DECENTRALIZATION**

In designing, implementing and evaluating decentralisation processes, it is vital to consider the linkages between these three core dimensions of decentralisation. In essence, there can be no effective decentralisation without addressing all three dimensions, as they are complementary and interdependent. They need one another, as the division of power across different levels of government and society needs to correspond with fiscal responsibilities; administrative systems and procedures need to be in line with the execution of political power and fiscal tasks; and fiscal arrangements need to prevent a clashing of political and administrative powers.

Source: EuropeAid (2007:xi)

Finally, successful decentralization requires a structured dialogue between local and central governments and suitable legal and institutional arrangements for managing a multi-level government system. These arrangements include, for example, a coherent national decentralization strategy; national urban policies which are aligned with the overall legislation for SNGs; and a proper legal, political, and institutional framework for the localization of national Sustainable Development Goals (SDGs) priorities.

Decentralization reforms—in whatever shape, form, and depth—are deeply political reforms as they influence the distribution of power and resources. While there are a lot of technicalities involved, the political dimension of such reforms must not be underestimated. What is often described as “political will” (or rather the “lack of political will”) is usually an obstruction within the political-administrative system caused by conflicting interests and priorities of competing groups and alliances. Understanding the interests and priorities of such groups and alliances is essential for grasping the motives and rationalities of reform initiatives, and the counteracting reactions triggered by the reforms.<sup>3</sup> The political economy of decentralization is an important element in considering the political dimension of decentralization and in identifying opportunities and risks.

DLG are not “owned” by local government departments or national ministries. Decentralization is a “whole of government” concept where various elements of the political and administrative system need to work in an aligned and harmonized manner to achieve the intended results. Therefore, having an effective coordination mechanism in place is an important precondition for the successful formulation and implementation of reform strategies. Key characteristics of such coordination bodies include

their legal basis (constitution, statutory law, executive or administrative decision), representation and membership in the coordination body (e.g., political vs. administrative members, national vs. subnational members), the mandates (limited or unlimited, mandate for policy formulation or for policy implementation), institutional affiliation and budget sources, and their relationship with other agencies (for instance whether they can make binding decisions and direct behavior of other agencies).

(Rohdewohld 2006:2)

In Asia, we can find an example of a highly elaborate and institutionalized coordination mechanism in Cambodia, in the form of the interdepartmental National Committee for Sub-National Democratic Development (NCDD) and its permanent secretariat (see Chapter 8 for details).

## 1.2 The Political Dimension of Decentralization

*Political decentralization* has been defined as “the set of institutions (e.g., constitutional and electoral reforms) designed to devolve political authority,

especially electoral capacities, to subnational actors” (Grossmann 2019:49). Political decentralization is closely associated with the modality of devolution as the most powerful and complex manifestation of decentralization. The crucial aspect of political decentralization is the establishment of a democratically elected local government consisting of a representative body, such as a local council, and an executive position such as a mayor or district chairperson who is accountable to the council in fulfilling his/her mandate.<sup>4</sup> The existence of an elected representative body at the subnational level which takes decisions on budgets, development plans, and public investments, and represents the citizens vis-à-vis the local administration to higher levels of subnational government (the nation-state, or other legal entities) creates its own political dynamic. Participatory procedures such as participatory development planning and budgeting, sharing of information,<sup>5</sup> and proper and effective accountability mechanisms can ensure that the local council (as the decision-making body) takes into account the needs and priorities of the local communities. In short, “political institutions accompanying fiscal and administrative decentralization should be designed to maximize the extent to which local office-holders have incentives to respond to the need and preferences of local population” (ibid.:51) (similar Manor 2013).<sup>6</sup>

Proximity of local authorities to citizens is the foundation on which the devolution concept is built, because this proximity creates “informational advantages” which make local authorities better placed than the central government to ensure that resource allocation is efficient and responsive to local preferences (Grossman 2019). However, effective accountability mechanisms are crucial and conditional for translating local capacities and resources into an allocation pattern which responds to citizens’ demands and is conducive to produce services with the required quantity and quality. We return to the need for effective accountability below in our discussion of elite capture and clientelism.

Normally, the local representative body is granted a degree of autonomy and discretion to discharge assigned functions for the benefit of the local communities within its territorial jurisdiction.<sup>7</sup> For this purpose, it can spend financial resources received through own-source revenue, fiscal transfers, or borrowing.

Introducing political decentralization without the other dimensions of decentralization usually has significant undesirable implications for the impacts and outcomes of the reform:

- Representative bodies that do not have a clear and meaningful mandate for functions and responsibilities, nor authority over the corresponding financial, institutional, and human resources, will have no power or purpose; either they will be unable to make decisions, or their decisions will have no impact. Over time, they will lose legitimacy and authority to address the priorities and needs of their communities.
- Political decentralization without administrative decentralization will force the local governments to rely on technical and administrative units from

other levels of government, which may or may not respond to the decisions of the local level. This limits the autonomy of the local government and its effectiveness to operationalize local decisions, which again over time can mean reduced legitimacy and acceptance.

In the same way, introducing the other dimensions of decentralization without its political counterpart will lead to suboptimal results, as “policies will fail to reflect multiple local preferences, needs and conditions, and produce more uniform levels of results from government” (Grossmann 2019:53).

Political decentralization is often presented and utilized as an opportunity for marginalized groups of the society to participate in decision-making processes, “to have a voice.” In Nepal, this aspect of integrating disadvantaged and marginalized groups is apparent both in the 2015 Constitution and in the 2017 Local Government Operation Act (see Chapter 11). Likewise, India used the introduction of local governments in 1993 as an opportunity to create reserved seats for minorities and disadvantaged sections of the society.

However, evidence has shown that the expected welfare and service-delivery effects of decentralization can be thwarted and frustrated by what has been called “elite capture.” Elite capture happens when local elites exploit existing power asymmetries (such as wealth, education, or relationships) to take control of the local institutions created and of the resources provided as “local elites are well positioned to disproportionately steal development funds or implement projects that advance their interests at the expense of the larger community” (Grossmann 2019:60). For instance, field research in rural districts of Punjab (Pakistan) following the 2001 Local Governance Ordinance showed that “large landlords called the shots ... workers, peasants and women got elected based on the patronage of the large landlord ... the concentration of landed power and wealth results in systematic political exclusion” (Rafi Khan et al. 2007:78f). In the Philippines, political families maintained their grip on influential subnational positions (such as gubernatorial posts) and even increased their influence from 19% of all local elected officials in 1988 to 29% in 2019 (Mendoza et al. 2019). Strong mechanisms for enforcing accountability and transparency, effective processes of public participation in planning and budgeting, and strong engagement of civil society organizations are means to minimize elite capture. Similar to elite capture, clientelism can reduce the positive effects of decentralization when local office-holders direct public funds to selected groups of the local community in exchange for their votes (Leon & Wantchekon 2019).<sup>8</sup>

The responsiveness of SNGs<sup>9</sup> therefore hinges on vital institutional and procedural arrangements for SNGs: the quality of local governance as shaped by political competition, accountability, civic engagement, and the availability of participatory processes (Ferrazzi & Rohdewohld 2017:27); the absence of high inequality in economic or social status; the prevalence of law and order; the conduct of free and fair elections; effective competition between political candidates or parties; the presence of reliable information channels to citizens;

and the presence of formal and informal oversight mechanisms. These prerequisites are often said to be lacking in many developing and emerging economies (Bardhan & Mookherjee 2006:9) (see also Carter & Post 2019; Grossman 2019; Leon & Wantchekon 2019). These issues need to be addressed in the design of local government systems, and in the implementation strategies of related reforms.

There is considerable debate in the literature about the design of local elections, including the role and functionality of political parties and the election system itself (such as partisan vs. non-partisan or a first-pass-the-post system vs. proportional representation).<sup>10</sup> Where local elections are based on party lists, the characteristics of political parties, such as the level of intra-party democracy and the pattern of party funding, can have a significant impact on the responsiveness of the local political system. Political parties can also play an important role in ensuring policy coherence between the local and national levels.

### **1.3 The Administrative Dimension of Decentralization**

Administrative decentralization has been defined as “the set of policies that transfer the administration and delivery of social services such as health and education to subnational governments” (Grossmann 2019:49). The administrative dimension of decentralization deals with regulations, structures, and mechanisms through which decisions of the elected representative body are executed and implemented. Administrative decentralization looks at the roles and mandates of subnational entities, their service delivery and regulatory jurisdictions, their institutional setup, and their human resource management arrangements. Decentralization reforms normally require subsequent public administration reforms to make the SNGs functional.

Shifting the roles and responsibilities between levels of government can cause numerous challenges related to, among others, vertical coordination between the different levels of government (e.g., control and oversight, information sharing, or monitoring), horizontal coordination (e.g., territorial planning and regional cooperation between similar levels of government), or human resource and capacity development issues (see DeLoG 2014:79f). The effectiveness of administrative decentralization can be restricted by factors such as:

- Limited control of SNGs over the recruitment and career development of personnel.
  - Lack of autonomy and discretion in determining the institutional setup and service-delivery modalities of subnational units.
  - Unclear mandates for development planning, land-use, and spatial planning.
  - Insufficient mechanisms for vertical and horizontal coordination of planning.
- A common issue faced by SNGs in many countries is fuzziness in determining mandates and functions of the different levels, which creates confusion about who is in charge of what.<sup>11</sup>

SNGs do not act in isolation; they are part of a wider system of public sector institutions which often need to interact in a meaningful and structured manner so that each individual institution can fulfill its mandate properly. Central governments must therefore adopt systems of oversight and supervision in order to ensure compliance of SNGs with existing laws, regulations, technical standards, and procedures. They must monitor the performance of SNGs in providing services and enabling the participation of communities, and provide meaningful capacity development support, guidance, and mentoring. Pakistan has created local government commissions for this purpose, while Indonesia has elaborated reporting processes from local governments to the national government. In some countries, fiscal transfer systems include performance-based grants, requiring that subnational performance on selected issues be measured and reported. The Philippines has a “Seal of Good Local Governance” system which helps to highlight subnational achievements, compare and encourage performance of SNGs, and identify capacity development needs.<sup>12</sup>

However, SNGs are not detached from national policy priorities. As part of a multi-level governance system, they need to incorporate national priorities and to respond in a meaningful and locally relevant manner. Establishing platforms for dialogue and information sharing (“policy arenas”) between the national and subnational entities is therefore an important part of decentralization reforms. Associations of SNGs can be important players for facilitating this vertical exchange.

It is important for administrative decentralization reforms to deal with the institutional setup at the subnational level, and to determine the extent to which SNGs can establish autonomously the number, size, and mandates of their own institutions. It is not uncommon for the national level to take such decisions out of the hands of the local representatives.<sup>13</sup> Sometimes this occurs for good reasons—for instance, to prevent a bloated and over-staffed institutional setup at the local level. But sometimes it is for the wrong reasons, such as national sector ministries wanting their own dedicated sector counterparts at the local level to safeguard direct vertical communication. Efficiency gains of decentralization can be jeopardized if SNGs do not have the autonomy to align their institutional setup with the local context.

Horizontal coordination is as important as vertical coordination. For public services such as water and waste management, public transport, health, and education, SNGs can often benefit from working together and providing services jointly. In addition to economies of scale, the spillover effects of services need to be considered. In spatial and land-use planning, SNGs need to look beyond their own territorial boundaries; many countries have a system of spatial planning or regional planning where different levels of government work together.

#### **1.4 Decentralization, Local Governance, and Gender<sup>14</sup>**

The impacts of DLG on gender are many and diverse. All citizens are expected to benefit from better service delivery at the local level. But women in particular may



see improvements in areas of daily life which existing social and cultural norms in Asia normally assign to them, such as taking care of water and sanitation issues, health, and education. The same is valid for most of the SDG targets which global efforts aim to localize. The promises of DLG therefore appeal significantly to women. The political dimension of decentralization has the potential to increase participation of communities in local decision-making, participatory budgeting, and development planning. This too could give women a stronger role in the political system; in fact, many countries have already introduced quotas for membership in local councils.<sup>15</sup> As the United Nations Development Programme (UNDP) said a few years back:

Women's representation is not just desirable; it is critical to the holistic development of a country. Women bring a different perspective based on their experience and outlook ... their participation in electoral processes leading to gender representation has been acknowledged as a crucial factor in influencing a country's growth agenda.

(UNDP 2014:8)

In reality, the promises of decentralization are much more difficult to realize for women than they are for men. An earlier Asian Development Bank (ADB) study observed that:

the same explicit and implicit gender biases that can infiltrate national planning, budgeting, and administration can also operate at the local level. In some contexts, local gender norms and traditional authorities may inhibit women's access to public services and participation in public decision making even more than at the national level. Decentralization processes therefore are rarely gender neutral. Locally informed gender analysis, strategies, and capacity development are needed to ensure that local government institutions are responsive to both women's and men's needs, and that women and men have equal opportunities to participate in local decision making.

(ADB 2012:34)

As men traditionally dominate in the decision-making processes, the phenomena of elite capture causes men to dominate and influence policies and agendas in the institutions of SNGs. In addition, women representatives elected at the local level are often new to the public sphere of politics, less accustomed to speaking in public, and less familiar with the processes and procedures for making decisions in public bodies. Within the structures of SNGs, women are often confined to those areas and committees dealing with what are regarded as "women's issues," and don't have access to committees deciding on "hard issues" such as budget, procurement, or local infrastructure (ADB 2014).<sup>16</sup>

Key gender issues in decentralization therefore include the following:

- Local planning, budgeting, revenue raising, and expenditures are rarely gender neutral.
- Quotas or reservations may be needed to promote women's participation in local decision-making, i.e., in local councils.
- Local administrators often have little experience in identifying or addressing gender concerns in their work.
- Overall, local norms, authorities, and practices (e.g., those related to marriage, inheritance, land ownership, and dispute resolution) may be gender-biased (ADB 2012:34).

A recent review of gender and local government in South Asia showed that DLG reforms need to purposefully include interventions that create an enabling environment for women to play their role in the institutions of SNGs effectively. This is especially true for women from minority and economically disadvantaged groups (Nazneen 2018). Investments in capacity building, networking, and strengthening of women's groups and associations are required (ADB 2014). The design and implementation strategies of DLG reforms need to include dedicated gender innovations such as "gender-responsive local budgeting, ring-fencing of funds for women's development, [and] mandatory inclusion of women constituents in ward level/public meetings" (Nazneen 2018:7). Such an enabling environment will not come automatically.

To take the debate further, one could ask whether the three modalities explained earlier have a gender bias, and if yes, how. For example, does devolution lend itself less toward gender equality because the phenomena of "elite capture" automatically means that a male-dominated local elite takes control of local institutions? Or would the observation that "there is more political space for women at lower levels of government" (ADB 2014:1) favor devolution and political decentralization? Could one make a case that a national elite is by default more modern-minded with more exposure to global debates about human rights and gender issues, and therefore would implement a policy of deconcentration of government functions with more gender orientation than a policy of devolution?

While in principle we do not see a gender bias in any of the three modalities of decentralization, we fully support the view that a gender analysis (see Box 1.2) is essential for all of them. A gender-focused political economy analysis provides a baseline to guide the reform trajectory and its underlying theory of change, and to inform policymakers about the required gender mainstreaming measures.<sup>17</sup>

### BOX 1.2 GENDER ANALYSIS IN DECENTRALIZATION REFORMS

The gender issues across the three modalities and dimensions of decentralization are not always immediately apparent. Due diligence preparations of decentralization and local governance (DLG) reforms (and of related support initiatives by development partners) therefore play an important role in identifying existing gender gaps or biases, and in understanding the possible gender-related impacts of any proposed policy changes.

Gender analysis should include:

- Collecting available data on gender (in)equalities and the status of women and girls in the country, including relevant variations (e.g., by region, caste/ethnicity, income).
- Collecting information on the representation of women and men among the decision makers and staff in the ministries and other organizations involved (e.g., the elected councils and political parties in the case of devolution).
- Analyzing gender issues in the relevant legal and institutional framework, including any gender biases in current laws, policies, regulations, or administrative practices, and any affirmative action arrangements such as reserved seats on councils.
- Assessing possible impacts of the suggested DLG reforms on different groups of women and men.

Source: Adapted from Asian Development Bank (2012)

## 1.5 Political and Administrative Decentralization in Asia

As can be expected, the political and administrative history of countries in the region influences and shapes their approaches toward decentralized governance systems. *Deconcentration* as a modality seems to be favored by countries with a history of strong and centralized state structures at the national level (such as Cambodia with its heredity of French colonial administration, or the countries of the former socialist bloc such as Mongolia and Lao PDR with their previously highly centralized arrangements for economic planning and political control). British colonial administration with its indirect rule approach still has a tangible footprint in the administrative structures and cultures of South Asia where the position of Deputy Commissioner (also called “District Collector” or “District Commissioner”) is predominant in the setup of subnational administration. Researchers have pointed to the specific context factors influencing leadership in policy and governance in Asia (not least a strong focus on hierarchy and rank, and on the role of state administration in determining social and economic development) (Berman & Haque 2015) which do not seem to favor a more decentralized setting in which power is shared between different levels, and between the political and the executive domain.

Still, many states in the Asia and Pacific region have a long tradition of community-based bodies of self-governance where communities make decisions on local issues. Examples include *panchayats* in South Asia, the *desa* in Indonesia, or the *communes* in Cambodia. Organizing local communities at village level was a hallmark of traditional governance structure in the Pacific Islands (Hassall et al. 2019). However, when formal state structures were re-established after the Second World War and with the end of colonialism, local governments were often not represented at all, or with very limited autonomy. Regarding Southeast Asia, it was said that nearly all Southeast Asian states “started as centralist states” as “this state structure was widely seen as most in accordance with the national-building process in these countries” (Ziegenhain 2016:52).

It was mainly from the 1980s onward that numerous countries in Asia, Africa, and Latin America began the transition from authoritarian, centralized regimes to more democratic and transparent political systems, and established or strengthened local governments as part of this political transformation.<sup>18</sup> Such reform processes have been characterized as politically motivated and driven more by central governments than by popular demands from below; their trajectory often lacking a synchronized approach for the coherent allocation of functions, finances, and functionaries between different tiers of government (Bhatti & McDonald 2020). While this process was ultimately driven by internal political and social considerations, it was at the same time part of a global trend, where development partners such as the World Bank and the regional development banks, and professional and institutional networks, played a vital role in policy transfer and policy diffusion (see Ferrazzi & Rohdewohld 2017:228–235).

The Local Government Code of the **Philippines** in 1991 was a regional trendsetter and influenced DLG reforms in other countries (World Bank 2005, Shair-Rosenfield 2016). **India** implemented constitutional amendments in 1993, which introduced rural and urban local governments as a third tier of government in the Indian Constitution (deSouza 2000; Aiyar 2015; Saxena 2011). **Pakistan** has seen several waves of local government experiments starting from the late 1950s, which included a far-reaching and conceptually advanced policy reform in 2000/2001 (ADB/DFID/World Bank 2004; Cheema et al. 2006; Islam 2015). An amendment of the constitution in 2010 provided the legal framework for the current arrangements in the four provinces (Seidle & Khan 2012). **Indonesia** had a framework law on DLG as early as 1974 but had done little to implement it: cautious steps were taken with a government regulation in 1992 and a subsequent pilot program aimed at transferring limited autonomy to 26 selected districts. This pilot program fizzled out soon, and it was only the dramatic political transformation after the downfall of long-time ruler Soeharto that created the opportunity for large-scale decentralization reforms (Ferrazzi & Rohdewohld 2011) and a momentous modification of the Indonesian multi-level governance system (Hofmann and Kaiser 2004; Aspinall & Fealy 2003, Hill 2014; World Bank 2017). **South Korea** saw the emergence of a stronger local government system after 2000, when many government functions were transferred to local governments (Heo 2018). **Cambodia** initiated

cautious steps for decentralization with its 2001 Commune/Sangkat Law, followed by the 2008 Organic Law for the districts and municipalities (Smoke & Morrison 2011; CDRI 2012; Niazi 2011, Eng & Ear 2016). **Thailand** and **Sri Lanka** are two lesser-known examples of reforms whose implementation and achievements were severely affected by the political developments in both countries (Sudhipongpracha & Wongpredee 2015; Unger & Mahakanjana 2016, Gunawardena & Weligamage 2008; CLGF 2018b). **Nepal** passed a comprehensive Local Self-Government Act in 1999, but the emerging local government system fell victim to the intensifying political and armed conflicts in the country; elected local government were re-established only in 2017 under the new federal constitution of 2015 (Asia Foundation 2017; Acharya 2018). **Bangladesh** has a constitutional requirement to establish local governments, and separate legislations were enacted between 1989 and 2009 for different tiers and categories of local governments. Shortcomings of the system that have been mentioned are

lack of genuine political will and support for local governance reforms; capture of the local political space by central actors; inadequate capacity of local government institutions; lack of continuity in policy and practices; bureaucratic domination; inadequate coordination; the gap between policy rhetoric and field reality; inadequate resource mobilization; and low degree of popular participation.

(Khan 2016:1) (see also Panday 2017; Panday 2019; & Khan et al. 2021)

Motives and rationalities for DLG reforms have varied. Socioeconomic development created conducive conditions for less centralized systems as growth in per capita income is often associated with urbanization and decentralization (World Bank 2005). Ichimura and Bahl (2009) also point to the implications of economic development as demands for better services and better opportunities for employment and business development become louder and regional disparities in living conditions widen. Political considerations were manifold. Indonesia needed to accommodate strong regional elites in its Big Bang decentralization after 1999/2000; Musharraf's 2001 reforms in Pakistan were intended to bypass hostile political elites at the provincial level and to generate greater legitimacy for his military regime; and Cambodia's move toward deconcentration and later devolution was intended to widen the state's influence at local and grassroots levels.

What distinguishes Asia from other regions of the world is its rapid urbanization that created huge demands for urban services, and a comparatively smaller tax burden at the subnational level as shared taxes and fiscal transfers dominate the financing of local governments as compared to own-source revenues (Brosio 2014; Smoke & Gomez 2006). Other comparative assessments indicate a smaller focus on political decentralization, and a less rapid and more controlled mode of implementation (Smoke & Gomez 2006).

Reflecting deeper fragmentation of the Asia and Pacific region, and probably also more entrenched political tensions (e.g., in South Asia), the region

does not have any pan-Asian statement or declaration related to DLG.<sup>19</sup> Existing institutions for political and economic cooperation—such as the South Asian Association for Regional Cooperation (SAARC) and the Association of Southeast Asian Nations (ASEAN)—do not take up these topics as part of their dialogue between governments. Consequently, intergovernmental exchanges of knowledge and lessons learned regarding DLG need to be organized by regional and multilateral organizations, such as ADB, UNDP, or the World Bank.

## Notes

- 1 See Chapter 12 for details.
- 2 See Ferrazzi and Rohdewohld (2017:16ff) for a detailed discussion of the motives and rationalities to initiate decentralization reforms. See also Grossman (2019).
- 3 See Eaton et al. (2011) for a detailed discussion about the political economy of decentralization. See also Manor (1999).
- 4 Manor (2013) therefore uses the term “democratic decentralization.”
- 5 Many states have “right to information” legislation which requires public bodies to provide information about their activities on a regular basis, and to respond to specific requests from citizens.
- 6 As discussed below (and in Chapter 4), processes of participation can fall victim to elite capture in the same way as the processes of political decision-making.
- 7 Again, it is pertinent to point out that such autonomy must be exercised within the framework of national laws, policies, standards, etc.
- 8 A case study by Ghosh and Das (2021) illustrates how power asymmetry influences a differential provision of public services by local institutions in a small town in West Bengal, India.
- 9 Another term used is “preference matching” (Channa & Faguet 2016).
- 10 Fifteen years back, in 2006, UNDP had already observed that “remarkably little attention has been paid to the ways in which formal electoral processes at the local level lead to appropriate (or inappropriate) outcomes in terms of representation and accountability” (UNDP 2006:4). See also, e.g., Leon and Wantchikon (2019); Grossmann (2019); Weingast (2014), Faguet (2014).
- 11 See Chapter 4 on sector decentralization and functional assignment.
- 12 See the legislation at <https://thecorpusjuris.com/legislative/republic-acts/ra-no-11292.php> [accessed 10-3-2020].
- 13 The recent (2019) sub-decrees of Cambodia on functions and structures of district and municipal administrations include the list of technical offices and their functions at this level. Similarly, the provinces of Pakistan determine the institutional setup of their local governments in a provincial-level regulation (“Rules of Business”). Indonesia has had a long debate about the level of discretion which should be given to local governments in determining their institutional setup.
- 14 We acknowledge the contribution of Anton Baare, gender specialist, for this section which draws substantially on the material developed for ADB’s e-learning course of 2020.
- 15 For instance, in India, between 33% and 50% of the seats in the Panchayati Raj institutions at the local level are reserved for women; in Pakistan, provincial local government acts also provide for reserved seats for women. Such quota systems have seen mixed reactions in terms of whether or not they contribute to increasing women’s participation in political decision-making (Brody 2009:35).
- 16 For instance, Mohiuddin and Ahmed (2019) argue that women representatives in the Union Parishad, Bangladesh’s lowest unit of rural local government, are

often denied a role in “project planning, implementation, budget-making, financial management ... women were also reported to be excluded from meetings and important decisions of the UP” (Mohiuddin & Ahmed 2019:77). Rahman (2020) found positive impacts of women leaders in the UPs in the field of social justice, social safety-net programs, and the improvement of the development administration, beside their direct concern for women issues.

- 17 For example, ADB uses four gender mainstreaming categories: gender equity, effective gender mainstreaming, some gender elements, and no gender elements (ADB 2012). Using such categories at the design phase of DLG reforms would help determine whether the outputs and outcomes explicitly and directly support gender equality and women’s empowerment by narrowing disparities, ensuring better access to social services and basic infrastructure, and enhancing women’s voices and rights.
- 18 For overviews, see Bardhan and Mookherjee (2006); Bünte (2011); Brosio (2014); Ichimura/Bahl (2009); Malesky and Hutchison (2016); Shair-Rosenfeld et al. (2014); Smoke and Gomez (2006); World Bank (2005).
- 19 Examples of such regional statements elsewhere in the world include the 1985 *European Charter of Local Self-Government* and the 2014 *African Charter on the Values and Principles of Decentralisation, Local Governance and Local Development*.

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## 2 Fiscal Decentralization in Asia and the Pacific

*Roger Shotton*

### 2.1 The Fiscal Dimension of Decentralization: Overview

This chapter poses key questions about the financing of subnational governments (SNGs) which fall within the broader topic of “intergovernmental fiscal relations,” i.e., the fiscal and public finance roles of central governments and SNGs at different levels, and their vertical relationships.<sup>1</sup>

Each level of government has its own comparative advantage in both public service provision and public taxation. The challenge is to find the right balance of responsibilities between the central government and SNGs at different levels, and hence the appropriate degree of fiscal decentralization. If SNGs are not given the appropriate fiscal responsibilities and adequate resources, broader decentralization and local governance policy objectives will be frustrated, and the potential economic and developmental benefits of decentralization will not fully materialize. Often, countries proceed faster and further along the path of political decentralization than that of fiscal decentralization. As a result, inadequate resourcing of elected SNGs can undermine their usefulness and legitimacy in the eyes of local constituents and reduce the incentives for citizens to engage in local public affairs. This may frustrate the goals of promoting political decentralization and better local governance. The principles and lessons on how best to arrange local financing and what errors to avoid are therefore critically important.

Fiscal decentralization is centered around four major pillars (see Figure 2.1):

- Expenditure responsibilities for SNGs.
- Revenue assignments to SNGs.
- Intergovernmental fiscal transfers to SNGs.
- SNG borrowing.

The following sections explore these four pillars in turn. It is useful to bear in mind that two key metrics are accepted globally as the parameters for fiscal decentralization policy debates: (i) the percentage shares of overall government spending and (ii) the percentage of shares of overall government revenues which are managed by SNGs. The 2019 report by the Organisation for Economic Co-operation and Development (OECD) and United Cities and Local Governments (UCLG)

Expenditure responsibilities "finance follows function"	Revenue powers	Intergovernmental fiscal transfers	Borrowing powers
<ul style="list-style-type: none"> <li>• <b>Terminology:</b> responsibilities, functions, assignments, mandates.</li> <li>• <b>Types:</b> <b>devolved</b> (allowing wide local discretion) vs <b>delegated</b> (little or no local discretion); <b>obligatory</b> (must provide) vs <b>permissive</b> (may provide); <b>uniform</b> (same responsibilities to all SNGs at same tier) vs <b>asymmetric</b> (variable responsibilities by local capacity or context).</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Terminology:</b> powers, responsibilities, assignments.</li> <li>• <b>Types:</b> <b>taxes</b> on incomes, profits, sales, land &amp; property, etc.; <b>fees</b> on services, use of natural resources, etc.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Terminology:</b> fiscal transfers, subventions.</li> <li>• <b>Types:</b> <b>shared revenues</b> allocated by area of revenue origin or derivation; <b>grants</b>, allocated by formula or other criteria, which are either (i) unconditional, block, general or untied grants, for wide discretionary use or (ii) conditional, categorical, specific, or tied grants for more narrowly defined use.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Terminology:</b> borrowing or capital-raising powers.</li> <li>• <b>Types:</b> borrowing through <b>government lending schemes for local authorities</b>, from <b>private banks</b> or from <b>capital or bond markets</b>.</li> </ul>

Figure 2.1 The Four Pillars of Fiscal Decentralization.

Source: Author.

on subnational finance and investment (OECD/UCLG 2019) reveals wide variations in these metrics around the world and within Asia. The key structural issue is the regular mismatch between the higher levels of local spending and the lower levels of local revenues. This “vertical fiscal gap” challenge is discussed in this chapter in Section 2.4.

## 2.2 Expenditure Responsibilities

The terms “expenditure responsibilities” and “functional assignments” are sometimes used interchangeably. However, SNGs are also mandated with important regulatory functions or responsibilities which may have no direct public expenditure implications at all. These include such functions as monitoring of compliance with social and environmental legislation, regulatory approvals for land use, and issuance of permits or licenses, among others.

The core normative public finance principle underlying design and analysis of fiscal decentralization policy is that “finance follows function.” Where this principle is neglected—as it very often is in practice—the resulting SNG financing arrangements can prove problematic (Bahl 1999).

Determining the expenditure functions or responsibilities of different levels of government is important for several reasons (see Shotton et al. 2016:3f):

- First, if the responsibilities for public services are not clearly assigned by level, then activities may be duplicated at different levels, or simply not undertaken at all. This undermines the efficiency of public service delivery.
- Second, if responsibilities for public services are assigned to the wrong level—that is, “local functions” are handled too centrally, or “national functions” too locally—then the quality (effectiveness, efficiency, and equity) of public service delivery may also suffer.
- Third, it is very hard to hold any level of government accountable if the legal provisions about who is responsible for what are vague or contradictory. Many countries encounter this problem of unclear expectations, especially some of the former socialist “transition” countries.

- Lastly, the critical first step in designing the other three elements of the intergovernmental fiscal framework must be to determine the expenditure responsibilities of each level. Only when this is clear can the financing system be designed to ensure that decentralized expenditures are adequately resourced. This means that the first policy question to be answered in any decentralization and local governance (DLG) reform is: Which spending responsibilities or functions should be given to SNGs, and which should be retained by the central government?

The key message is that the design of SNG financing arrangements (the assignment of revenues, the design of fiscal transfer systems, and the granting of borrowing powers) should be aligned with the assignment of functions or “expenditure responsibilities” in a multi-level governance system.<sup>2</sup>

Responsibilities may be decentralized to SNGs to allow a greater or lesser degree of SNG discretion along a spectrum of possible arrangements, depending on the modality of decentralization being used. These may be:

- Arrangements that allow SNGs a wide degree of spending discretion across all mandated sectoral responsibilities, as is common with fully *devolved* responsibilities for basic local services and infrastructure. These are often financed by the SNGs’ own-source revenues and/or by general transfers.
- At the other extreme, arrangements that tightly specify what SNGs can spend on (even with ceilings on unit spending rates), with little room for local discretion, are often linked with *delegated* responsibility. In this case, the SNG acts on behalf of the national government, and services are delivered in a uniform manner across the country, such as vaccination services or social welfare benefits. These services are usually financed by highly specified fiscal transfers based on *ex ante* unit cost estimates,<sup>3</sup> allowing little or no local spending flexibility, or as *ex post* cost reimbursement.
- Between these extremes are arrangements that allow SNGs a degree of spending discretion, but only within the area or sector of mandated responsibility. This is usually associated with basic socioeconomic services or investment responsibilities financed by earmarked or sector-specific conditional transfers.

The arrangements chosen will have implications for the appropriate fiscal architecture, and especially for the design of the fiscal transfer system, as will be seen in the following sections.

The range of responsibilities assigned to SNGs, and the degree of discretion allowed to them, are also key factors in determining the scope for localizing the Sustainable Development Goals (SDG) in individual countries. Clearly, in countries where a greater range of responsibilities has been decentralized and/or where local discretion is greater (e.g., Indonesia, Philippines, or Indian states such as Kerala or Karnataka) there can be much more ambitious local SDG agendas than in more centralized countries (e.g., Bangladesh, Thailand, Cambodia, or

Mongolia) where SNGs have a very limited role in public spending priorities and decisions.

The issue of “unfunded mandates” arises when the spending mandates given to SNG do not match the revenues provided to them, resulting either in spending responsibilities that in reality are not carried out, in deficit spending, or in excessive borrowing by local authorities with resulting macroeconomic problems, as seen in the People’s Republic of China.<sup>4</sup>

The next sections cover the three mechanisms for financing SNG responsibilities: own-source revenues, fiscal transfers, and borrowing.

## 2.3 Own-Source Revenues

The main purpose in assigning own-source revenue powers is to allow SNGs to generate revenues to finance their spending responsibilities. Own-source revenues are derived from the powers given to SNGs to collect *tax revenues*, such as property tax, land tax, personal and business taxes, or taxes on trade, and *non-tax revenues* such as water user charges, market or business license fees, or fines.<sup>5</sup>

Just as with expenditure responsibilities, there are several broad considerations to guide the assignment of appropriate revenue responsibilities to SNGs, which derive from underlying principles of economic efficiency and equity. Overall, they tend to be very cautionary:

- Local revenue sources should be related to economic activities whose impacts are contained within the SNG areas of jurisdiction.
- Local revenue sources should not encourage economic distortions, competition, or resource flights between SNGs in a way which could damage overall national economic development. A typical example of this is taxes on trade between SNG areas, common in South Asia, such as the state *octroi* tax which was for a long time levied on goods circulating between states in India.<sup>6</sup> These kinds of taxes impose a deadweight economic cost and suppress economic activity.
- Local revenue sources should be those for which the tax base does not vary greatly between SNGs to avoid major disparities that cannot be easily compensated by fiscal transfers. Typical examples are taxes on natural resources which are only present in specific areas, or customs duties on international trade that only takes place in the SNGs which contain international crossing points.<sup>7</sup>
- Local revenue sources should not be too technically complex to be administered at the SNG level.

In general, SNGs across Asia are only assigned quite modest revenue sources; therefore, own-source revenues finance only a small fraction of SNG spending. This is in part because the economic considerations outlined above indicate that few revenue sources are well suited to be decentralized—notably, taxes on immobile assets such as land and property. By contrast, major revenue sources (e.g., taxes



on incomes and profits, commercial taxes, international trade duties, etc.) are generally believed to be more efficiently and equitably managed under central control. But even where potentially important tax powers are decentralized, the local tax bases (e.g., business turnover, incomes, land values) over which these taxes can be levied by SNGs may be very modest and so yield very little revenue.<sup>8</sup> However, there is often political and bureaucratic resistance at central level to decentralize even those revenues which economic principles suggest are strong candidates for decentralization, such as taxes on land and property.

SNGs typically are assigned a number of non-tax revenue sources, such as levies or fees on natural resource (forest, fisheries, minerals, water) management, wastewater, vehicle registration, and so on. While these may not always yield significant revenues, they are often potentially very significant in policy terms—for example, for their impact on local environmental goals.

Even where SNGs have been assigned certain revenue-collecting powers, the actual degree of control and discretion which they can exercise in using these powers may vary:

- SNGs may be given the right to retain certain revenues but not the power to determine or change tax rates in line with inflation or the taxpayer lists (tax base). This limits the tax yield for SNGs. Moreover, the reduced role of SNGs in managing local tax policy may result in a loss of both the economic efficiency and the governance and political accountability benefits that decentralizing these revenue powers is intended to bring in the first place.
- SNGs may be only allowed to levy and retain a percentage surcharge, “piggybacking” on taxes managed by central government. This is quite common for taxes on income; business, land, or property; sales of goods and services; and power or water sales. This arrangement reduces the policy initiative for SNGs but allows scope for much greater all-round administrative efficiency in tax collection.
- SNG staff may not always be directly responsible for all the tasks entailed in collecting the assigned revenues. In some cases, the revenues may be collected by central finance or treasury officials on behalf of SNGs. In other cases, some tasks may be shared; for example, periodic technical property valuations may be handled by the central government or a technical assessment agency on behalf of the SNGs collecting property taxes.

In some countries, it is common practice for SNGs and the central government to share revenues: either SNGs collect a tax and remit “upwards” a percentage, or central governments collect the tax and remit “downwards” a percentage of the revenue. Strictly speaking, these are not SNG own-source revenues but are *fiscal transfers*, since they derive from central government legal revenue powers.<sup>9</sup>

It is important that discussions around increasing SNG own-source revenues avoid confusion and make a clear distinction between two quite separate issues. On one hand is the *tax policy question* of identifying and decentralizing additional sources of revenue which would be more appropriately assigned to SNGs than



retained centrally. On the other hand, is the question of exploring any *regulatory or capacity constraints* which may impede SNGs from making full use of their existing revenue powers. These constraints may be due to a lack of clarity in SNG powers to adjust tax rates, expand the base of taxpayers, or pursue defaulters. Or, they may be capacity limitations of different sorts such as the capacity of the SNG to create and update databases of taxpayers or to know how to make fair tax assessments.<sup>10</sup> There are a number of initiatives around Asia which have successfully addressed these sorts of constraints. For instance, in the Philippines, property- and land-related taxes are potentially major revenue sources for SNGs in the Philippines, yet have typically yielded very little. A review in 2014 showed that:

- Almost half of the land parcels remained untitled, with no reliable land database, and with half of SNGs having outdated land use plans.
- Some 70% of urban properties had outdated property values, and valuation methodologies were not uniform between SNGs.
- Proliferation of property-related taxes had encouraged avoidance of formal property sale transactions, and hence of corresponding tax payments.
- There was a widespread sense that taxation was unfairly administered, further discouraging tax payment.

A project funded by the Asian Development Bank (ADB) introduced several innovations in selected SNGs, such as the development of unified land information systems by SNGs and related central agencies. The project focused on making full use of IT capabilities, participatory updating of land use plans, assessments of land tenure status and development of land tenure improvement strategies, updating of property valuation policies and practices, development and rollout of standard guidelines for property valuation standards and mass appraisal, and training of revenue staff in all SNGs. One of the encouraging results is the substantive increase in local revenues with more citizens complying with tax obligations as improved service delivery is associated with public spending (ADB 2016).

Finally, while raising own-source revenues has the obvious advantage in expanding resources for local spending on public services, it is also argued that there are two further major benefits. First, greater reliance on own-source revenues is now seen as a way to minimize moral hazard problems leading to irresponsible local spending, stemming from over-reliance by SNGs on fiscal transfers (“other people’s money”).<sup>11</sup> Second, the more SNGs are compelled to levy taxes rather than rely on fiscal transfers to finance local spending, the more local citizens are likely to engage in local governance and hold their representatives accountable for the manner in which their taxes are used.<sup>12</sup>

## 2.4 Intergovernmental Fiscal Transfers

Intergovernmental fiscal transfers are financial payments to SNGs made by central government from its own revenue sources. The central government budget

account will show these fiscal transfers as expenditure outflows. Fiscal transfers are often the prime revenue source for SNGs, especially in poorer and/or rural areas.<sup>13</sup>

### *Rationale for Fiscal Transfers*

There are several reasons why such transfers are necessary (see Shotton et al. 2016:13). In most countries, the level of spending which SNG are expected to undertake, given their expenditure or functional assignments, far exceeds the level of revenue which they can hope to raise locally. This basic asymmetry leads to what is known as the “vertical fiscal gap.” In order to fill this gap, the central government has to provide fiscal transfers.

However, the size of this fiscal gap will vary among SNGs due to different levels of spending responsibilities and differences in their capacities to raise own-source revenues (as seen usually between rural and urban SNGs). This creates what are called “horizontal equity” problems. In response, governments often try to design allocation mechanisms for fiscal transfers that compensate for these differences and equalize fiscal capacities across SNGs.

However, fiscal transfers may also be provided to SNGs for other reasons, such as:

- Encouraging SNG spending in sectors of national importance which may otherwise be neglected by SNGs—for example, public health, early childhood education, social welfare, and environmental conservation.
- Compensating SNGs for socioeconomic externalities arising from activities in other SNGs such as the negative effects of upstream watershed or extractive activities on downstream areas.
- Addressing specific socioeconomic problems or emergencies such as those arising from disasters, economic downturns, and unemployment crises.
- Providing incentives for better SNG performance (see below).
- Rewarding or placating local elites or disaffected local groups; this is often related to natural resource (oil, mining, timber, etc.) revenues which typically arouse strong local ownership claims and potential conflicts with central authorities.

Here we are concerned with the two main categories of fiscal transfers: *revenue-sharing transfers* and *grant transfers*. Figure 2.2 provides a simple, schematic taxonomy of each type of transfer and the possible variants under each.

### *Revenue-Sharing Transfers*

In revenue-sharing arrangements, a specified percentage of the proceeds from one or more specific central government tax revenues are shared back with the SNG where the taxes were collected; this is referred to as allocation by derivation or origin.<sup>14</sup> The taxes typically shared are income and payroll taxes, value added tax, fuel

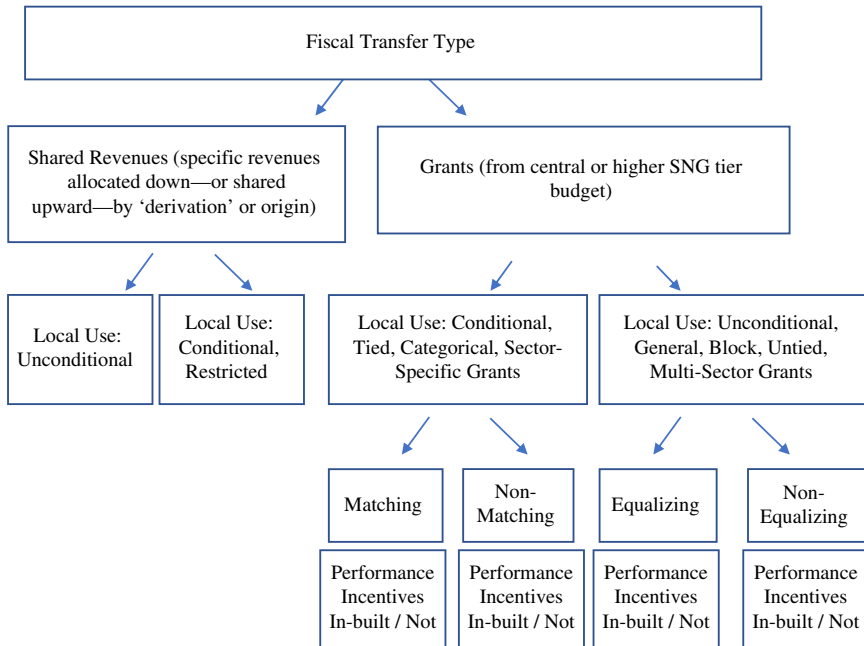


Figure 2.2 Simple Taxonomy of Fiscal Transfers.

Source: Author.

taxes, and especially natural resource-related taxes.<sup>15</sup> Generally, SNGs are allowed discretion in the use of these revenues, although shared fuel taxes, for example, may be earmarked for spending on roads. Historically, such revenue-sharing arrangements have been especially important in the People's Republic of China<sup>16</sup> and in Viet Nam,<sup>17</sup> where complex sharing arrangements on a range of local tax and non-tax revenues, varying both across and within provinces, have been long practiced (although more recently subject to reforms and simplification).

Two major examples of natural resource-related revenue-sharing arrangements are seen in Indonesia and Mongolia. In Indonesia, forestry and mining revenues and oil revenues are shared between the central government and the provincial and district governments of derivation at rates of 20%:16%:64% and 84.5%:3.1%:12.4%, respectively. While these shared revenues now account for only 5.6% of overall transfers, the fact that they benefit only a few SNG areas leads to major disparities.<sup>18</sup> In Mongolia, a share of taxes, exploration fees, and royalties on mineral and oil extraction are shared with the SNGs of derivation (at rates of 30% to 50%, varying by type of revenue, and by year), as part of the Local Development Fund transfer mechanism. Again, the uneven geographic patterns of mining activity cause major disparities.<sup>19</sup>

In Myanmar, central government returned 15% of commercial and special goods tax revenues, 5% of personal income tax revenues, and 2% of stamp duties

to the states/regions of derivation.<sup>20</sup> In practice, however, 90% of these transfers accrued to Yangon region.

The exact policy objectives of such revenue-sharing mechanisms often are not clearly stated, but are generally justified as ways to simply address the overall fiscal gap. In some cases, they are used to compensate SNGs for cost externalities; for example, to address local social and environmental costs arising from mining operations. In other cases, they are used explicitly to satisfy local political claims and appease local elites, especially in natural resource-rich areas. However, such transfer mechanisms are obviously not appropriate instruments to promote horizontal equity. Revenue sharing is therefore likely to further compound the disparities in SNG own-source revenues.

### *Grant Transfers*

Grant transfers are made from central government revenues to SNGs using some form of allocation criteria or formula, unrelated to the collection origin of the revenues. They may come from all central government revenues or from specific ones. Again, SNGs may be allowed broad discretion, or the transfers may be tied to specific types of spending. Here, the key policy design issues are (i) how the funds should be used, (ii) how much money should be allocated in total to the national fund pool and from which national revenues, and (iii) how the resulting pool of funds should be distributed across SNGs.

Grant transfers can be of several kinds:<sup>21</sup>

- *Unconditional, general purpose, or block grants.* These are transfers to SNGs for a range of expenditure types mandated to SNGs. Almost all countries with SNGs use some general grant of this type, which are very often allocated with some form of equalization criteria. Thanks to their discretionary nature, there is a very strong incentive for local participation and consultation in determining how these grants should be used (an opportunity which can be lost where fund use is pre-earmarked). Examples are the block grants to *gram panchayats* in many Indian states, the *Dana Alokasi Umum* grants in Indonesia, the Internal Revenue Allotment grants in the Philippines, the Commune/Sangkat Fund and the District/Municipal Funds in Cambodia, and the Local Development Fund in Mongolia. SNGs are usually allowed a degree of flexibility in their use, although a number contain limits on current spending to encourage development spending.<sup>22</sup>
- *Equalization grants.* These are transfers to SNGs that aim to compensate for varying own-source revenue capacities and to “equalize” total fiscal resources across SNGs. One example of such a stand-alone mechanism is the very small Equalization Grant in Thailand.<sup>23</sup> However, in most cases the equalization function is embedded in the design of the unconditional grants discussed above.
- *Conditional, categorical, specific, or sector grants.* These are transfers to SNGs that are tied to a subsector such as basic education, or even to specific services

or functions within a service, such as school meals or girls' scholarships. Such grants often allow very limited flexibility. Whether such grants are established depends on the policy priorities of the central government and its need to ensure that even in a decentralized, multi-level system, national priorities are being pursued. Examples are the *Dana Alokasi Khusus* in Indonesia, the various centrally funded flagship programs (e.g., health, education, and water, sanitation, and hygiene) in India, or the targeted programs in Viet Nam.<sup>24</sup>

- *Other targeted transfers.* These are transfers to SNGs that are often of a more ad hoc nature. Examples include transfers to address the specific problems of selected remote or poor areas, address short-term unemployment, or deal with the aftermath of a disaster. Examples are the targeted transfers to the poorer mountain areas in Viet Nam, and the Calamity Fund in the Philippines.<sup>25</sup>
- *Deficit or "gap-filling" transfers.* These transfers are typically used in former socialist countries such as Mongolia and Lao PDR.<sup>26</sup> SNGs first submit draft revenue and expenditure budget proposals to the central government, after which the central government engages in bilateral negotiations with each SNG to provide funding for an agreed level of SNG deficit.<sup>27</sup>
- *Cost-reimbursement transfers.* These are transfers to offset the costs of delegated functions, such as registering births. Reimbursement is made to SNGs on an "as is" basis, or according to unit cost guidelines.<sup>28</sup> There is little or no flexibility in the use of such funds.

For each grant transfer option, a provision must be made in the national budget each year to establish the national transfer pool from which allocations are made to SNGs. The national pool may be determined in one of several ways:

- Through an ad hoc decision, often as a residual after other, more pressing national budget priorities have been decided upon, with the pool often varying considerably from year to year.
- Based on an estimate of the total or per capita spending levels that SNGs are expected to incur for the expenditures in question, usually for conditional, sector-specific grants.
- Based on a percentage of national budget revenues (either specific revenues or all national revenues), often based on a legal and sometimes even constitutional provision to this effect.

Clearly, the more national transfer pools are "rule-based" rather than based on ad hoc decisions, the more stable and predictable are the size of both the national pool and the individual SNG allocations. Ideally, the national pool for each grant transfer also should be adequate to finance the volume of SNG spending required by the spending mandates; however, this is often not the case. Box 2.1 highlights some examples of how the national unconditional grant transfer pools are funded across Asia.

**BOX 2.1 SELECTED GRANT MECHANISMS IN ASIA:  
FUNDING OF THE NATIONAL POOL**

- **Indonesia:** *Dana Alokasi Umum* grants, funded by 26% of the national revenues.
- **Philippines:** Internal Revenue Allotment grants, funded by 40% of the national revenues in the fiscal year 3 years prior to the year of the transfer. Of this amount, 23% goes to provinces, 23% to cities, 40% to municipalities, and 10% to *barangays*. At least 20% of the allocation to each level is reserved for development budget spending.
- **India:** Block grants to district, block, and *gram panchayats*, funded through the states, and fixed as a percentage of national domestic revenues by the five-yearly Central Finance Commissions—this latter percentage was recently raised from 32% to 42% of the national revenue pool.
- **Bangladesh:** Block grants to *union parishads*—previously an ad hoc annual pool, but now funded by some 4% of the investment component of the national budget (Annual Development Plan).
- **Myanmar:** Formerly “deficit” or “gap-filling” grants to states/regions in Myanmar were funded on an ad hoc basis, but had been funded from a stable national transfer pool, linked to GDP growth, under the national medium-term fiscal framework.
- **Cambodia:** Commune/Sangkhat Fund grants funded by 2.7% of the national revenues respectively – and District/Municipal Fund grants set initially at 0.8% of national revenues, but set to grow steadily over time toward 1.2%.
- **Mongolia:** “Deficit” grants, now from a pool established under the medium-term fiscal framework, and the Local Development Fund grants to *aimags* and *soums*, based on percentages of several national revenues specified (and often changed) each year.

Source: Author’s compilation.

Grant allocations from the national pool to SNGs may be made in one of several ways:

- As an ad hoc decision, or based on the relative power of political or bureaucratic lobbying for different SNGs.
- Based on *ex ante* estimates of SNG fiscal deficit—this is the allocation method used for the deficit or gap-filling transfers still prevalent in many former socialist countries.
- As a flat, equal amount to each SNG regardless of relative need; this is now rather unusual, but has been a surprisingly common practice, seen in earlier years, for example, in block grant transfers in Nepal and in several Indian states.
- Increasingly common nowadays, based on some criteria or formula which aims to promote equity between SNGs for the type of spending to be funded by the grant in question.

Unconditional grant formulas usually aim to incorporate measures of overall relative local spending need using variables such as population, land, and poverty levels as proxy measures for general spending need. They also sometimes, but not always, reflect relative local revenue capacities of SNGs. As noted above, unconditional grants also often aim to serve an equalization function across SNGs—although inappropriate allocation criteria may undermine this, as will be seen. In constructing equalizing formulas, a variety of indicator variables are found across Asia, which attempt to provide a proxy measure for relative spending need and sometimes fiscal capacity:

- *Relative expenditure need*: population size; land area; poverty headcount or incidence, or development level (inverse); population density; remoteness; unit service delivery costs; numbers of elected representatives, wards or villages, or other local administrative units; SNG staff numbers.
- *Relative fiscal capacity*: actual or potential local revenues; percentage of population in urban areas; GDP per capita.

Box 2.2 highlights a few examples of allocation criteria for unconditional grant transfers across Asia.

#### BOX 2.2 SELECTED GRANT MECHANISMS IN ASIA: ALLOCATION CRITERIA

- **Indonesia**: The *Dana Alokasi Umum* grant is allocated by a formula, which aims to reflect the difference between relative fiscal need through proxy measures of expenditure and own-source and shared revenues; it previously also included a “basic” element based on civil servants’ salary costs based partly on numbers of civil servants, and partly on the projected “fiscal gap.”
- **Philippines**: SNGs at each tier receive an amount based on population (70%), land area (25%), and an equal share (25%).
- **Myanmar**: Until FY 2015/2016, unconditional grant transfers to states/regions were based on negotiations around projected SNG budget deficits. This was changed to a formula-based allocation with three indicators as proxy for spending need (population, poverty level, and land area), and three indicators as proxy for fiscal capacity (GDP per capita, rate of urbanization of the population, and per capita tax collection). Since no weights were indicated in the policy, by default each indicator was given an equal weight of  $\frac{1}{3}$  or 16.66%.
- **Mongolia**: The Local Development Fund is allocated by four criteria: population (25%), the inverse value of a composite socioeconomic development index (25%), a composite index measuring land area and remoteness from the capital city (25%), and a composite index of tax revenue collection performance (25%). Since no weights were indicated in the policy, by default each indicator is given an equal weight of  $\frac{1}{4}$  or 25%.

Source: Author’s compilation.

Conditional grant formulas usually aim to reflect some measures of relative spending need for the sector in question; for example, education grants related to numbers of school-age children or actual enrolled pupils, sometimes also with *ex ante* estimates of average schooling cost per pupil; road maintenance grants to SNG land area or size of its road network, etc. As will be seen, such allocation formulas may have negative equity effects if inappropriately designed.

### *Fiscal Transfers in Asia: Patterns, Trends, and Reforms*

There is considerable variation in both the magnitudes and combinations of fiscal transfer arrangements across Asia (see Box 2.3). Overall, fiscal transfers to SNGs in South Asia are dominated by various grant mechanisms, although India's states and Pakistan's provinces also receive revenue-sharing transfers from the federal government. Socialist/transition countries in Southeast and East Asia, such as the People's Republic of China (PRC), Viet Nam, Lao PDR, and Mongolia, have historically featured complex revenue-sharing arrangements between levels of government (Shotton & Gankhuyag 2019). In many cases, these are now being reformed into simpler grant transfer arrangements.

Indonesia has instituted a large natural resource-related revenue-sharing mechanism alongside a mixture of grant transfers as part of its "Big Bang" decentralization reforms initiated 20 years ago. Thailand also maintains various grant transfers as well as revenue sharing for commercial, business, and other taxes and fees.

Not surprisingly, in federal countries such as India and Pakistan, there is considerable variety in the transfer patterns within different states and provinces. However, even some unitary states such as the PRC and Viet Nam allow provinces a substantial degree of autonomy through their state budget laws in establishing sub-provincial transfer arrangements. Thus, arrangements within provinces vary greatly across the country, in an almost federal manner.

There are also trends to reform fiscal transfer systems in a number of countries, with the general aim of introducing greater simplicity and transparency and a greater use of rule-based criteria for allocations to promote predictability.



### BOX 2.3 FISCAL TRANSFERS IN ASIA: PATTERNS, TRENDS, AND REFORMS

Since 1994, the People's Republic of China has been implementing major reforms to its complex, vertically negotiated sharing arrangements, placing transfers to provinces within a more stable and transparent rules-based framework. Over time, fiscal transfer systems in countries such as India, Nepal, and Viet Nam have become more complicated. Sectoral and program grant transfers have proliferated, each with their own allocation criteria and procedures, reducing—in some cases for better, but often for worse—the degree of local discretion in spending, and complicating local planning, financial management, and reporting. In India, however, this trend is now being reversed (following the 14th Finance Commission) with a streamlining of the transfer mechanisms and a shift back toward general purpose unconditional grants to promote local discretion and leverage the benefits of decentralized decision-making.

A number of countries have moved away from earlier, more ad hoc transfer allocation arrangements toward more stable, transparent, and predictable rules-based arrangements for both the financing of the allocable pools and the allocation of transfers to individual SNGs. The **Philippines** has been a forerunner, with the Local Government Code (1991) specifying a 40% share of national revenues going to the Internal Revenue Allotment (IRA), to be allocated to SNGs. In **Indonesia**, the Law on Fiscal Decentralization of 1999 dictates that a specified share of the national budget be allocated to the Balancing Fund transfers to SNGs. More recently, in **Cambodia**, the national pools for the two main unconditional grant instruments, the District/Municipal Fund and the Commune/Sangkat Fund, are now linked to specific percentages of national government revenues. Since 2015, **Myanmar** has linked the main grant pool for transfers to states and regions to GDP growth, and allocations were made by formula rather than by the previous “gap-filling” arrangements. The 2019 Local Government Act of **Punjab (Pakistan)** stated that

the provincial allocable amount shall constitute not less than 26 percent of the general revenue receipts of the province in the relevant financial year for the first two financial years following the commencement of this Act (i.e., 2020–2022), and thereafter constitute not less than 28 percent.

Source: Author.

### *Other Center-Local Fiscal Flows*

In addition to the fiscal transfers outlined above, there can be a number of other fiscal flows from the national level to subnational localities:

- Most importantly, central sector ministries usually disburse substantial amounts via their subnational offices or service units, such as schools,

hospitals, and health centers, to cover the costs of local administration and service delivery. These do not pass through SNG budgets. Such deconcentrated flows funded from the central budget may be as large as the volume of fiscal transfers to SNGs or dwarf them in such highly centralized countries as Bangladesh, Thailand, or Cambodia.<sup>29</sup>

- In Pakistan, the Philippines, and the Solomon Islands, funds are provided to members of national or provincial parliaments, allowing them to finance local development activities in their constituencies whose boundaries may be the same as those of one or several SNGs. These sorts of “constituency fund” arrangements have attracted criticism about their lack of transparency, their fragmentation of local planning efforts, and their promotion of clientelism when they are used to obtain or reward political support.<sup>30</sup>
- Donor agencies and nongovernment organizations may also transfer funds to local project management units “off budget,” bypassing SNG accounts altogether.

## 2.5 Local Borrowing

Borrowing, or access to capital markets, is another potential source of revenue to finance SNG spending, especially for capital projects.<sup>31</sup> Indeed, the literature places special importance on this financing source to mobilize private capital to expand SNG fiscal space and to promote greater intergenerational equity. The latter stems from the fact that, through loan financing, future (and probably wealthier) generations of users benefiting from long-term capital investments will also pay their fair share of the costs through long-term debt repayment arrangements.<sup>32</sup>

Conversely, international experience shows that allowing SNGs to take on excessive loans—for example, Argentina in the 1980s and in the PRC currently—can threaten the macroeconomic stability of the SNGs themselves as well as the country overall.<sup>33</sup> This arises essentially from the “moral hazard” problem—namely, that SNGs may be tempted to borrow at irresponsibly high levels assuming that the central government will bail them out if necessary. Such concerns have led to increasing reliance worldwide by central governments on fiscal rules for SNG borrowing, and especially on *ex ante* controls.<sup>34</sup>

In practice, however, the borrowing option is generally open only to SNGs of large, prosperous urban or metropolitan areas. This is for two reasons: first, SNGs in these areas usually enjoy much greater own-source general tax revenues to allow repayment; and second, urban areas allow much greater opportunities for the types of investments (e.g., markets, or large piped water supply or electric power systems) that generate user fee revenues to allow full or partial repayment of capital costs. By contrast, for most SNGs in developing countries, especially those in poorer, more rural areas, such options are very limited or nonexistent. This is because they have very limited own-source revenue capacities and hence very limited ability to repay the loans. The introduction of SNG loan funding arrangements therefore can lead to horizontal equity problems across SNGs.

A variety of SNG lending arrangements can be found across Asia. These may take the form of publicly funded mechanisms managed by a central ministry or national development bank; mixed public-private funding mechanisms; purely private, market-based loan mechanisms; or general or special purpose bond issuance arrangements. The various market-based mechanisms may themselves be backed by publicly funded guarantees.<sup>35</sup> Examples of lending arrangements which can be found in Asia and the Pacific include Nepal's Town Development Fund (TDF), the Municipal Development Fund (MDF) in the Philippines, and the Regional Development Account, the Investment Fund Account, and the Subsidiary Lending Agreement in Indonesia. Indonesia is moving to establish a new mechanism, the Regional Infrastructure Development Fund (RIDF) which is capitalized by a mix of debt and equity and is managed by a state-owned enterprise rather than by the Ministry of Finance.

## 2.6 Challenges for SNG Financing

The two main sources of SNG financing—through decentralizing revenue powers and establishing fiscal transfers—each have their own policy design and implementation challenges.<sup>36</sup>

### *Decentralizing Revenue Powers*

- SNGs may have weak revenue-raising powers. Even where there is commitment to decentralize, most major revenue sources are more appropriately retained by central government—that is, they do not meet the economic criteria set out earlier. And even for those revenue sources which are well suited for SNGs (such as property or land-related taxes), central governments are often reluctant to give away control.
- SNGs may have weak revenue collection capacities. They often face various constraints on mobilizing revenues even where they have mandated powers. For example, they may not be allowed to raise historic tax rates (e.g., in line with inflation) without central approval; they may not have legal powers to pursue defaulters; and they may not have adequate capacities to properly manage and update the taxpayer rolls and the estimation, billing, and collection cycle.
- Taxpayers' willingness to pay may also be undermined where SNGs are seen as untransparent, sowing mistrust about use of tax monies. Further, in many countries non-tax revenues such as license fees from auctioning the management of SNG assets (markets, etc.) are important, but procedures to manage these auction processes can be untransparent, allowing collusion and resulting in "leakage" of SNG revenues.
- Finally, SNGs may lack incentives. SNG leaders and officials may simply be reluctant to be too vigorous in raising revenues from local citizens, given the political downside, particularly at election time. This may be especially so if fiscal transfers are the dominant revenue source, as they so often are.

Incentives are further undercut in those countries where fiscal transfers are allocated on the “negotiated gap filling” basis (discussed above), simply because the wider the proposed “expenditure-revenue gap” the better the chance of receiving a larger deficit transfer.

### *Fiscal Transfers*

The resources budgeted for SNG fiscal transfer pools are often inadequate. To some extent, this is simply a reflection of the overall budgetary constraints faced by most Asian countries. But it is also a result of two other factors. First, *advocacy* for SNG budget interests is typically weak in the national budget negotiation process as compared to those for central sector ministries and national programs. This is partly due to the lack of political influence and collective lobbying power of SNGs. Second and more technically, the size of the fiscal gap is often unknown due to lack of basic research on desired service standards and delivery costs for those spending responsibilities which have been decentralized to SNGs. Consequently, the level of funds transferred may only partially cover the “real fiscal gap” between own-source revenues and the levels of spending that would be required for SNGs to properly deliver on their mandates (see Figure 2.3).<sup>37</sup>

Third, even the budgeted levels of transfers are sometimes not fully released to SNGs or are delayed and/or released in an irregular manner. This may be for several reasons:<sup>38</sup>

- The actual central revenues allocated to the national pool are less than those estimated in the original central government budget—this may be due to an unforeseen economic downturn or to bad revenue forecasting.<sup>39</sup>

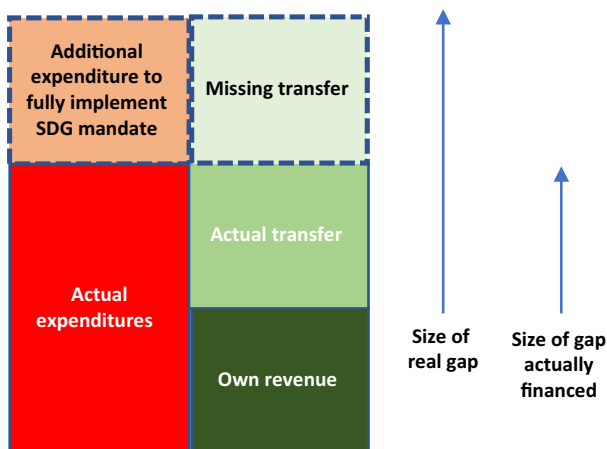


Figure 2.3 The Two “Fiscal Gaps.”

Source: Author.

- The central government is unable to approve the release of all the budgeted transfers within the fiscal year due to SNG capacity problems, excessive reporting requirements, or treasury blockages down to the local level.<sup>40</sup>
- National budget priorities change over the year; this is more of a problem where the arrangements for financing the national transfer pool have not been specified in law.

Equalization or unconditional grant transfers are designed to equalize needs and fiscal capacities. However, in practice, they often fail to do so for one or both of two basic reasons:

- Overall resources for this equalization transfer are inadequate to compensate for the disparities to be addressed. These disparities usually arise from widely differing levels of own-source revenues or shared revenue transfers. In particular, shared mining revenues or corporate taxes can vary hugely between SNGs.
- The equalizing transfer allocation formula is not designed or managed effectively for the purpose. This may be because key factors are not included in the formula at all. For example, in some cases the formula only covers measures of relative spending need, but not relative levels of own-source revenues or shared revenue transfers. There also may be errors in the design of the allocation formula, such as (i) assigning too low a weighting to relative population sizes of SNGs (thereby neglecting population size as the prime determinant of spending need); (ii) using the absolute poverty index or similar index values, or other per capita values, without normalizing these values by the relative population sizes of SNGs; or (iii) using variables which may to some extent duplicate each other (for example, SNG land area and distance from the capital) as proxies for costs of infrastructure and service delivery, thereby overweighting the importance of those “need” factors relative to others, especially population size.

Equity issues can also arise with the allocation of sector-specific or other earmarked grants. In some countries these grants are allocated by criteria related to the size of the present infrastructure stock in the sector. For example, in Viet Nam, health sector grants are allocated to provinces based on several factors, including the numbers of hospital beds, thereby introducing a bias in favor of already better endowed areas. Grants allocated based on achievement of service delivery outcomes can also generate inequity in funding. For example, in India, over the 13th Finance Commission period (2010–2015) health transfers were linked to local infant mortality rate (IMR) improvements. This led to massive disparities in funding, with some states receiving INR200 per capita and others less than INR1, because there was not adequate recognition of the different degrees to which states at various points on the IMR spectrum could make improvements. States that started with better IMR levels, which were relatively harder to improve, were therefore penalized.<sup>41</sup>

Where inequities in public spending capacity between SNGs exist, they also undermine national progress to achieving SDG 10: “reduced inequalities.”

## 2.7 Incentives in Fiscal Transfers: Pitfalls and Opportunities

Fiscal transfers are the main funding source for most SNGs across Asia. Fiscal transfers often transmit significant incentives which can shape SNG performance, for better or for worse, especially in regard to the composition of local budget decisions and hence the quality of public service delivery.

### *Unintended Perverse Incentives*

There is a widespread view that fiscal transfers undermine incentives for SNGs to mobilize own-source revenues, but the evidence for this is mixed, with some studies showing a positive correlation between transfer levels and local revenue effort.<sup>42</sup> That aside, fiscal transfers may transmit other incentives which can undermine the quality of local budgeting and service delivery performance. The following are some common pitfalls in fiscal transfer mechanisms:<sup>43</sup>

- Too many rigid conditional grants with centrally determined spending priorities can encourage SNGs to budget in areas which do not necessarily correspond to local priorities. They may also encourage multiple local planning processes for each grant, undermining attempts to coordinate and integrate. Before the reforms recommended by the 14th Central Finance Commission, this had become a major problem for *panchayats* in India, with the proliferation of top-down central programs, each with its own conditional grant and its own procedures.<sup>44</sup> Conversely, transfers which are too open-ended may encourage SNGs to overly prioritize spending on their own local administration.<sup>45</sup>
- Sharp annual fluctuations in resources transferred, due to large annual changes in the national transfer pool, lead to unpredictability. This undermines SNG attempts to effectively budget each year or to plan for the medium term. Volatility in funding of the Local Development Fund in Mongolia has led to a “boom-bust” cycle in planning in some areas,<sup>46</sup> and reduced the enthusiasm of local communities to participate in the annual planning process.
- Delayed information from the central government to SNGs on next year’s transfer amount can undermine local efforts to prepare a revenue-constrained budget with well-considered priorities. It can also encourage unrealistic long wish lists, which often end up being cut back at higher levels where there is much less knowledge of real local priorities.
- Fund flow or treasury delays—whereby SNGs only receive transfers late in the fiscal year—can lead to hurried last-minute budget decisions (especially where fund carryover to the following year is not allowed) which may not always be aligned with local policy and spending priorities.

### *Using Performance-Based Grants to Transmit Positive Incentives*

However, the transmission of incentives also provides an opportunity (see Shotton & Gankhuyag 2019). Fiscal transfers can be explicitly designed to carry positive incentives to promote better SNG performance. Historically, the focus of such attempts has been to encourage local revenue-raising efforts. In more recent years, however, we have seen the emergence of performance-based grants (PBGs) with a broader focus. These PBGs are usually linked to existing grant mechanisms and carry explicit incentives to encourage better SNG performance in service delivery and governance.<sup>47</sup> PBGs are given as a “top up” reward on existing grant transfers, based on the results of annual assessments of SNG performance. The assessment scores are then used to reward or sanction SNGs by transferring more or less funding to them, depending on their performance.

Performance criteria for PBGs linked to multi-sectoral unconditional grants are generally process indicators related to governance, planning, budgeting, public financial management, and transparency.

When PBGs are linked to conditional grants earmarked for specific functions or services, it is sometimes more feasible to link performance criteria to service delivery output indicators, although process indicators are also used. In the health sector, countries such as Argentina, Brazil, Pakistan, Tanzania, Uganda, and India have implemented performance-based transfers. Funds are transferred to SNGs and then further to health service units, based on both general process performance and health service outputs. Ecological fiscal transfers are another, more recent type of sectoral PBGs. They have been implemented in Brazil, France, and Portugal to reward SNG performance in environmental protection; performance is measured against the size and quality of SNG conservation measures.

Designing and implementing PBG mechanisms and ensuring their long-term sustainability can be challenging, and the evidence on their effectiveness and impact is relatively limited. However, they do appear to offer an important opportunity for positive incentives to encourage compliance with public financial management practices and good governance and to improve delivery of public services, and thereby support local implementation of the 2030 Agenda for Sustainable Development. They also provide a tool for central governments to incrementally decentralize responsibilities to SNGs at a pace consistent with increasing local performance capacities.

## **2.8 Concluding Remarks**

A number of highlights and conclusions emerge from this brief account of the fiscal dimension of decentralization:

### *Overall Considerations*

Firstly, discussions around fiscal decentralization tend to be technical and normative, reflecting their roots in economics and public finance principles. But given

the realities of policymaking and implementation, national and local politics frequently intrude. To illustrate:

- Subsidiarity principles often suggest that a wide range of spending responsibilities be decentralized to SNGs. This may often be opposed by powerful sector ministries and politicians, who fear losing control over budgets and staff and the patronage opportunities related to these resources. In addition, in sectors such as education or health, staff unions—fearful of the implications for their own careers and mobility—may themselves vocally oppose any moves to decentralize control to local authorities.
- Public finance principles suggest that fiscal transfers be rule-based and announced to SNGs early in the budget calendar to allow for more disciplined and efficient local budget preparation. This may be opposed by senior officials and politicians whose room for discretion and patronage in negotiating transfer approvals is thereby undercut.
- Technical and equity considerations argue for fiscal transfers to be calibrated by formula to the relative spending needs of different SNGs, whose population and poverty levels may vary markedly. This can meet resistance from national officials and politicians. At times, it may be that greatly varying transfer levels between SNGs, even if technically justifiable, are hard to defend or explain. In other cases, national MPs, whose constituency boundaries coincide with SNG areas, may feel uncomfortable with a wide variance in SNG transfers, and press for more similar (even identical) allocations.
- Lastly, while there is widespread agreement that MPs' constituency funds constitute bad public finance practice, such mechanisms are also often seen as a pragmatic way to recognize their own patronage needs and perhaps reduce their interference in SNGs' own planning and budgeting processes.

It should also be stressed that fiscal decentralization is not an agenda to be pursued to the extreme, since not all spending or revenue responsibilities should be decentralized. Instead, the goal is to strike the right balance of responsibilities and funding arrangements between the central government and the various SNG tiers, in view of the respective comparative advantages and limitations of each level.

It is unusual for any country to reach a final equilibrium in this balance of central-local fiscal relations, since there are always cyclical pressures in favor of greater decentralization (e.g., due to local political pressures) or of greater centralization (e.g., due to macroeconomic budgetary crises).

Despite these ongoing dynamics, it is important that SNGs are given as stable a framework of spending responsibilities and financing arrangements as possible. This will allow them time to develop their capacities to plan, budget, and deliver, and to be held to account for their performance, rather than being subjected to frequent changes of the parameters within which they have to operate.



### *Fiscal Self-Sufficiency Not Realistic for Most SNGs*

The degree to which the great majority of SNGs can fund their service delivery responsibilities from own-source revenues is and will remain very limited. As highlighted earlier, efficiency and equity may dictate that major revenue sources be retained by central government—and there is always resistance to decentralizing even those revenue powers which would be better managed locally by SNGs. It is noteworthy that even SNGs in wealthy and highly decentralized countries are still highly reliant on central transfers. For example, the two SNG tiers in Canada (the most decentralized of OECD member countries) account for 76% of all government spending but collect only 55% all government revenues; 30% of SNG revenues come from fiscal transfers. In Denmark, SNGs account for 26% all government spending but only 2% all government revenues, with 85% of SNG revenues coming from fiscal transfers. And in Switzerland, SNGs account for 61% of all government expenditure but only 53% of government revenues, with 21% of SNG revenues coming from fiscal transfers.<sup>48</sup> For OECD countries overall, on average own-source revenues accounted for 45% of total SNG revenues in 2016 but fiscal transfers and other central subsidies were close behind at 37%.<sup>49</sup> Consequently, it is generally illusory to expect SNGs to be fiscally self-sufficient in Asia, however attractive this goal may seem, other than perhaps for wealthy metropolitan areas. Similarly, opportunities for SNG borrowing to finance spending will remain very limited, certainly for SNGs in more rural areas.

### *Importance of Fiscal Transfers*

In consequence, the design and resourcing of fiscal transfer systems as prime funding source for SNG service delivery (and for the “localizing SDG” agenda) must be an issue of paramount concern for both local and national policymakers and development partners. The aim must be to ensure not only the overall adequacy of funding for transfer systems, but also the right balance of types of transfer to allow appropriate degrees of SNG discretion over local plans and budgets, and an equitable balance of SNG resources across the national territory.

It is important to note that fiscal transfer systems in Asia vary by country; their patterns are formed by different histories in both the evolution of SNGs and different economic management traditions. Consequently, there are limits to the value of generic normative advisory approaches to the reform of intergovernmental fiscal relations.

It is also important to not focus only on the overall legally defined architecture of fiscal transfer systems. The lower-order details embedded in the “plumbing and wiring” arrangements of these transfers should also be examined (clarity of the eligible spending menu of each transfer, timing of advance transfer announcements, treasury procedures, etc.). These arrangements may carry incentives which can seriously undermine SNG planning, budgeting, and delivery performance, regardless of the quality of SNG human or institutional capacity.

Conversely, there is now an emerging body of experience to suggest that fiscal transfers can be judiciously designed to incorporate positive incentives to raise local performance and thereby complement other capacity building programs.

### *The Challenges of COVID-19*

The COVID-19 pandemic has set back progress toward achieving the SDGs across Asia, placing great stress on public service delivery (UN ESCAP 2021).

In most of Asia, health service delivery remains relatively centralized and SNGs have little discretion, other than at the margins. What has been more important has been the non-spending role of local authorities in monitoring and reporting on outbreaks, in promoting social awareness, and in deciding on and enforcing social restrictions adapted to local context.

The pandemic has also underscored the complexity and intersectoral nature of the policy responses needed from government to respond to such a crisis, and the importance of vertical coordination between central government and different SNG tiers, and between sectoral departments at each level. If the lesson were needed, it has been a timely reminder that a simplistic, binary “centralization vs. decentralization” lens is of little use, and that the real challenge is in crafting the right balance of responses needed from both central governments and SNGs, where each level plays its role based on its institutional comparative advantage.

### **Notes**

- 1 For general framework and principles around fiscal decentralization, see the classic account in Bahl (1999) and World Bank (2020a). For a view of fiscal decentralization patterns and trends in Asia, see Yoshino et al. (2017), Martinez-Vazquez (2011), Kim and Dougherty (2020), and White and Smoke (2005). The annexed checklists in OECD (2019) and World Bank (2010a) provide simple guides for assessing fiscal decentralization in a given country context.
- 2 For discussion of a general methodology for determining the decentralization of expenditure responsibilities, see German Agency for Technical Cooperation (GTZ) (2009), Ferrazzi and Rohdewohld (2017), and McClure and Martinez-Vazquez (2000); a variation on this methodology applied to the education sector in India is detailed in Pritchett and Pande (2006). For country assessments of local expenditure responsibilities in India, see ADB (2020c); in Indonesia, see Martinez-Vazquez et al. (2004); and in the PRC, see Martinez-Vazquez and Qiao (2006). More generally, for details of international patterns and trends in decentralizing expenditure responsibilities, see OECD/UCLG (2019), Chapters 4 and 5, and country case studies, and World Bank (2020a). See Chapter 4 for a more detailed discussion on functional assignments, a term which is often (but not always) used as synonymous with “expenditure responsibilities.”
- 3 With unit costs based on, for example, numbers of pensioners and annual pension payments, or numbers of children to be vaccinated and average cost per child.
- 4 See ADB (2014) and Chen et al. (2018).
- 5 For more discussion of local revenue issues see ADB (2020a) and (2020b), Yoshino et al. (2017), Bird R. (2001) and (2010), McClure and Martinez-Vazquez (2000), Martinez-Vazquez (2011), and Smoke and Sugana (2012).

- 6 The *octroi* tax was abolished in India in 2017 and replaced by a nation-wide Goods and Service Tax (GST)—an indirect form of value-added tax. For a detailed account of this tax reform and the implications for fiscal decentralization in India, see Sharma (2021).
- 7 For many years, provinces in Lao PDR were allowed to retain such customs revenues, greatly favoring Vientiane Capital and Savannakhet and Pakse provinces, at the expense of the other 15 provinces. These revenue sources have now been centralized, although against political opposition from the province authorities who have lost out from this reform.
- 8 In other cases, SNGs may be assigned “nuisance tax” revenue powers which may yield less than they cost to collect—dog taxes being the classic example.
- 9 Complexities around tax and revenue-sharing are further detailed in OECD and UCLG (2019), Chapter 6.1.
- 10 See ADB (2020a) and (2020b), and World Bank (2014) and (2020b) for more discussion of these sorts of issues. See ADB (2016) for an initiative to build revenue mobilizing capacities in the Philippines.
- 11 See, for example, the second-generation fiscal federalism arguments in Oates (2005) and Weingast (2014) which place much importance on SNGs being able to collect significant levels of own revenue; this stands in contrast to the earlier, first generation fiscal federalism model expounded by Musgrave (1959) and others, which took a more minimalist approach to the need for own-source revenues.
- 12 These arguments around the taxation-governance nexus have been developed by Moore (2007) and (2018).
- 13 For more discussion see Bahl (1999), Bahl et al. (2001), Boadway (2001), Bird and Smart (2002), Schroeder and Smoke (2003), Shah and Boadway (2006), Smoke and Kim (2003), Shotton and Gankhuyag (2019), and World Bank (2020a).
- 14 In a sense, all fiscal transfers are arrangements for sharing some part of central government revenues with SNGs, whether designed in the form of revenue sharing by derivation or of grant transfer mechanisms. The difference is that the former are allocated in relation to the area of original revenue collection, while the latter are allocated by other, unrelated criteria.
- 15 See Bauer et al. (2016).
- 16 See Wang and Herd (2013), Wang and Ma (2014), and Wong (2000).
- 17 See Martinez-Vazquez (2005) and World Bank (2015).
- 18 In Indonesia (2010), Kalimantan Timur province received some USD 65 per capita from mining revenues, and Papua and Kalimantan Selatan around USD 30 per capita. Seventeen other provinces received virtually nothing. See Agustina, Ahmad et al. (2012) and World Bank (2020a).
- 19 See Chapter 10 on Mongolia for details.
- 20 For Indonesia, see Agustina, Ahmad et al (2012); for Mongolia, see Bauer et al. (2016), and ADB (2021); and for Myanmar, see Shotton et al. (2016), Shotton (2019), and World Bank (2019). Myanmar’s experience also illustrates problems faced in administering the sharing of income, profit, or sales tax revenues paid by large companies. In such countries, these companies pay taxes to “large taxpayer” officers of Finance Ministries which may only be in selected SNGs, but not necessarily in the areas where the companies operate.
- 21 See Shotton et al. (2016:14).
- 22 For India, see ADB (2020c); for Indonesia, see World Bank (2020a); for Philippines, see Uchimura and Suzuki (2012); for Cambodia, see ADB (2018); and for Mongolia, see ADB (2021).
- 23 For details on Thailand, see World Bank (2012). It should be noted that, since this equalization grant only accounts for 5% of all transfers, it is much too small to

- significantly compensate for fiscal capacity disparities arising from variances in own-source revenues and all the other fiscal transfer revenues of SNGs at different levels.
- 24 See World Bank (2020a), ADB (2020c), and World Bank (2015) for Indonesia, India, and Viet Nam, respectively.
  - 25 See Llanto (2009) and Uchimura and Suzuki (2012) for the Philippines, and Martinez-Vazquez (2005) and World Bank (2015) for Viet Nam.
  - 26 See ADB (2021) for Mongolia, and Martinez-Vazquez et al. (2006) for Lao PDR.
  - 27 Under these arrangements, SNGs that enjoy levels of own-source revenue that exceed their spending plans may have to make a surplus transfer up to central government. The typical challenges in these arrangements are spelled out in Ebel et al. (1995), Dabla-Norris and Wade (2006), Martinez-Vazquez and Boex (1999, 2000), and Shotton and Gankhuyag (2019).
  - 28 For example, the special purpose transfers in Mongolia to finance delegated education, health, and social protection spending. See ADB (2021).
  - 29 For Myanmar, see Shotton (2019); for Bangladesh, see World Bank (2010b); for Thailand, see World Bank (2012); and for Cambodia, see ADB (2018).
  - 30 For issues around constituency funds, see van Zyl (2010).
  - 31 No data is available on the relative importance of debt financing of SNG spending in Asia overall. For EU countries, data over the 2000–2011 period suggests that the annual debt-financed share oscillated in a range of around 5%–15% of local investment spending by SNGs.
  - 32 This rests on two assumptions not always met in reality: it supposes compliance with the “golden rule,” which bars use of SNG debt financing for recurrent spending, limiting this only for capital investment spending; it also supposes that loan repayment periods match the economic benefit lifecycle of the investments concerned.
  - 33 For SNG debt problems witnessed in PRC, see ADB (2014), Chen et al. (2018) and Clark (2016).
  - 34 The “moral hazard” problem arises due to a common pool problem, whereby there is separation of the costs and benefits of public spending, coupled with a soft budget constraint. If an investment benefits only one SNG jurisdiction but the costs are ultimately funded from a wider national fiscal pool, then this creates incentives for the SNG to overspend, safe in the knowledge that the loan costs of this overspending will ultimately be borne by the central government. See Alvina 2019
  - 35 For an outline of such arrangements see Smoke (2019). A similar variety is seen across Europe; in much of continental Europe, SNG borrowing is almost entirely from private banks, but in the UK and Ireland it is mainly from central government-funded mechanisms. See OECD (2019).
  - 36 These challenges in Asia are outlined in much greater detail in Smoke and Kim (2003), White and Smoke (2005), Martinez-Vazquez (2011), and Shotton and Gankhuyag (2019).
  - 37 Chapter 4 on sector decentralization also discusses the issue of costing of sector functions.
  - 38 This section is based on Shotton and Gankhuyag (2019).
  - 39 Unrealistic forecasting coupled with the objective volatility of major national revenues in Mongolia has frequently led to mid-year cutbacks on levels of funding released from the Ministry of Finance to the Local Development Fund transfer mechanism.
  - 40 In India, it has been reported that grants from the Backwards Region Grant Fund sometimes arrive right at the end of the fiscal year or even well into the following fiscal year—in other words, one to two years late. Less extreme but still serious delays are registered in the allocation of education conditional grants through the treasury system: reports suggest that only some 50% of grants arrived in the first six months of the fiscal year, and that up to 10% had not even arrived by the

- end of the year. See Government of India, World Bank and SIDA (2010) and Accountability Initiative India and Centre for Policy Research (2018).
- 41 See Center for Global Development and Accountability Initiative (2015).
  - 42 See, for example, Brun and Khdari (2016), Troland (2016), and Lewis and Smoke (2017) for evidence for Morocco, Philippines, and Indonesia, respectively.
  - 43 For more coverage of unintended incentive effects, see Shotton and Gankhuyag (2019). For the specific case of Indonesia see Lewis (2013), Lewis and Smoke (2011), and Smoke and Sugana (2012).
  - 44 See ADB (2020c) and Government of India (2015).
  - 45 For example, Lewis and Smoke (2017) argue that SNGs in Indonesia, for lack of any such limits, had for a long time overspent on administration; this may also be true for SNGs in Myanmar. See Shotton (2019).
  - 46 See Bauer et al. (2016).
  - 47 For a more detailed account of performance-based grants, see Steffensen (2010) and Shotton and Gankhuyag (2019); for a compilation of performance-based funding mechanisms in the health sector, see Fritsche et al. (2014); and for a more general discussion of financing incentives, see Fritsche et al. (2014) and Musgrove (2011).
  - 48 2013 budget data in all cases. See OECD and UCLG (2019).
  - 49 See OECD (2019).

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# 3 Subnational Planning and Budgeting in Asia and the Pacific

*Gerhard van 't Land*

## 3.1 Introduction: Context and Relevance of Subnational Planning and Budgeting

### *Definition and Importance of Subnational Planning and Budgeting*

In the field of development cooperation, few words are used as much as *planning and budgeting*. Usually, these words are applied in combination, notably in the public sector, with the budget being the translation of a plan into expenditure estimates. Although one can also plan and budget for revenues, the expression is mostly used for the expenditure side of public sector operations. It is, in economic terms, about making decisions on the allocation of limited resources to satisfy the (often infinite) public interest. As such, in most situations, planning and budgeting is a process that should involve both civil servants and elected politicians as representatives of the citizens.

*Subnational planning and budgeting*, the topic of this chapter, may seem a narrower definition of the term, yet it encompasses a wide range of different processes and functions in different governance situations. Usually, it refers to planning and budgeting by subnational governments (SNGs) and relates to public services for which SNGs are mandated. However, contexts differ widely. For example, the size of SNGs varies from less than a few thousand inhabitants (as in Mongolia) to over 200,000 (e.g., in Malaysia). Furthermore, within countries, subnational governance may be situated at different levels. Cambodia, for example, has governance bodies at the commune level, district level, and provincial level, with each level engaged in planning and budgeting for the specific (or overlapping) services it is responsible for. The nature of subnational planning and budgeting thus depends on contextual factors such as the governance system that countries have put in place, the way service delivery responsibilities are shared between levels of government, and how those services are funded.

Subnational planning and budgeting for public sector resources is important for two reasons. First, it has the potential to bring public sector decision-making closer to where people live and work, thus providing them with a sense of belonging, shaping their relationship with the state, (re)introducing democratic legitimacy, and enhancing the social contract. That is why participatory planning and budgeting, or the concept of directly involving as many as possible people in the process,

is so important in countries that are in the process of democratic state-building (e.g., Cambodia and Viet Nam). Second, subnational planning and budgeting is important because most public services are delivered at the subnational or local level. Planning and budgeting for these services may be only partly carried out at the subnational level. Yet, based on the subsidiarity principle for decentralization, in many cases planning and budgeting would indeed best be done at this level.

The overall objective of this chapter is to discuss concepts related to subnational planning and budgeting and to illustrate the contextual differences in circumstances in which they are operationalized. Section 3.1 describes how differences in institutional arrangements affect perspectives on subnational planning and budgeting, and how that relates to decentralization. Section 3.2 deals with various forms/types of planning, while Section 3.3 focuses on budgeting, thereby trying to unravel the two words often used in combination. Section 3.4 deals with budget execution, or the process of using the resources for the public good, and Section 3.5 discusses trends and challenges with regards to subnational planning and budgeting.

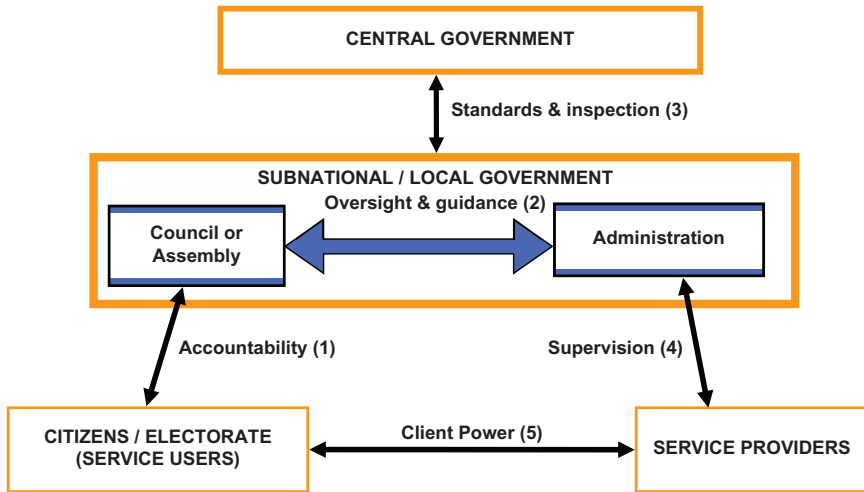
### *Differences in Subnational Governance Arrangements across Asia*

Following the wave of decentralization reforms around the world that started in the 1990s, purely centralized countries where all public service delivery is planned, budgeted, and implemented by the central government have become increasingly rare. Nowadays, even the most centrally organized countries apply some decentralization in the form of deconcentration or delegation. As such, in most countries, a combination of different governance systems exists, whereby some services are provided by the central government, with certain degrees of delegation or deconcentration, while others are provided by subnational (devolved) governments, be they federal governments or local governments. The division of service delivery responsibilities between the central government and the SNGs varies from country to country (see paragraph on functional assignments below).

In 2003, the World Bank noted that the main objective of most forms of decentralization is to *enhance the participation of citizens in planning and strengthen, through various means, the “voice” of citizens in influencing service delivery* (World Bank 2003). In theory, SNGs are ideal vehicles for local decision-making and for people to participate in such decision-making, primarily through their elected representatives.

A simple *ideal type* of devolved SNG responding to these objectives is depicted in Figure 3.1. The diagram can be read as a *subnational governance and accountability framework*, with the elected assembly or council as the supreme governing entity of the SNG (*the legislative*) that deliberates, on behalf of all citizens living in the geographical area (usually the corresponding administrative area), on topics within the jurisdiction of that SNG.

The implementation of the plan (also called *budget execution*) is usually done by an administration, the size of which can vary considerably depending on the



*Figure 3.1* Ideal Type of a Devolved Subnational Government.

Source: Author, among others, used in Land (2012).

number of functions that are transferred to it. The administration is overseen by the council and is accountable to this governing body; in turn, the elected councilors are accountable to the electorate. Officially, the council approves the plan and budget, but many actors play a role in its preparation.

The diagram also shows that, although autonomous, SNGs do not operate in a vacuum and are overseen by their national government (or any other higher level of government). This higher level of government also sets norms and standards to which SNGs are bound and which influence—or at least set the contours of—the SNG plan and budget.

These days, most countries around the world, including those in Asia, have SNGs, which are defined as “decentralised entities elected through universal suffrage and having general responsibilities and some autonomy with respect to budget, staff and assets” (OECD/UCLG 2019). In 2019, the Organisation for Economic Co-operation and Development (OECD) identified nearly 640,000 SNGs in the 122 countries in its sample. This means that, in most cases, local-level public service delivery is a combined responsibility of two or more government levels, and planning and budgeting take place at two or more governance levels.

In Asia, roughly half of the countries have two SNG levels, while the other half have three (OECD/UCLG 2019; see also Table 3.1). There is no Asian country in the OECD sample with only a single SNG level.<sup>1</sup>

Table 3.1 also illustrates the wide variety in the number and size of SNGs. Malaysia has relatively large SNGs, but their number is relatively small (161). By contrast, India has relatively small governments at the lowest level (roughly 5,000 inhabitants), but the number of SNG entities is enormous (over 267,000).

Table 3.1 Data on Subnational Governments for 12 Low- and Middle-Income Countries in Asia

#	Country	System	Income level	Subnational/Local Governments			Average Municipal Size (Population)	Total # of SNGs
				Regional/State	Intermediate	Municipal		
1.	Bangladesh	Unitary	Lower Middle	64 District level <i>zila parishads</i>	489 <i>Upazila parishad</i>	4,553 324 Union <i>parishads</i> <i>Pourashavas</i> (urban LGs)	30,625	5,441
2.	Cambodia	Unitary	Lower Middle	24 Provinces 1 Capital city	159 Districts 26 Municipalities ? <i>Khans</i> (in Phnom Penh)	11 City corporations 1,410 Communes 236 Urban <i>sangkats</i>	9,600	1,856
3.	PRC	Unitary	Upper Middle	31 Provinces	334 Prefectures	2,851 Counties	?	3,216
4.	India	Federal	Lower Middle	29 States	—	2,62,771 Rural <i>panchayats</i>	5,010	2,67,464
5.	Indonesia	Unitary	Lower Middle	7 Union territories 34 Provinces	416 <i>Kabupaten</i> 98 <i>Kota</i> (cities)	4,657 Urban municipalities 83,344 <i>Desa and kelurahan</i> (villages)		83,892
6.	Malaysia	Federal	Upper Middle	13 States	—	98 Rural district councils 38 Urban municipal councils 12 City councils	2,05,350	161

7.	Mongolia	Unitary	Lower Middle	21	<i>Aimags</i> (provinces)	330	<i>Soums</i> (rural district)	1,568	<i>Baghs</i> (community)	1,788	2,081
				1	Capital city (UB)	9	<i>Duuregs</i> (urban district)	152	<i>Khoros</i> (urban neighborhood)		
8.	Nepal	Federal	Low Income	7	<i>Pradesb</i> (provinces)		—	460	Rural <i>gaunpalika</i> (municipalities)	7,450	760
								276	Urban <i>gaunpalika</i> (municipalities)		
								6	Metropolitan cities		
								11	Sub-metropolitan cities		
9.	Philippines	Unitary	Lower Middle	81 1	Provinces Autonomous region	1,489 145	Municipalities Cities	42,045	<i>Barangays</i> (villages)	?	43,761
10.	Sri Lanka	Unitary	Lower Middle	9	Provincial councils		—	276	Rural <i>pradeshiya</i> <i>sabhas</i>	62,880	350
								41	Urban councils		
								24	Municipal councils		
11.	Thailand	Unitary	Upper Middle	75	Prov. admin. organizations		—	2,232	<i>Thesaban tambon</i> (sub-district)	28,282	2,517
								178	<i>Thesaban mueang</i> (towns)		
				1	Metropolitan city of Bangkok			30	City municipalities		
								1	City of Pattaya		

12.	Viet Nam	Unitary	Lower Middle	58	Provinces	546	Rural districts	8,978	Communes	8,511	11,938
				5	Centrally run cities	49	Urban districts	1,581	Wards		
						51	District level	603	Commune-level towns		
						67	Provincial cities				
										Total :	4,24,547

Source: Table compiled by the author using OECD/UCLG (2019): 2019 Report of the World Observatory on Sub-national Government Finance and Investment—Country profiles.

Note: In the study, the term “municipalities” is not explicitly defined but seems to be interpreted as “the lowest level self-governing body.” For OECD, the word has no direct connotation with “urban.”

Subnational planning and budgeting will look different in each of these situations. The differences, however, are not only related to the number and relative size of the SNGs; they also depend on the functions that are, *de jure* and *de facto*,<sup>2</sup> transferred to the respective levels of SNG as discussed in the next section.

*SNG Tiers and Responsibilities (Functional Assignments)*

The OECD (2019) notes that the division of functions and service delivery obligations between the central government and SNGs (both federal and local) is complex and unclear in many countries around the world. This can often lead to competing and overlapping competences and a lack of accountability, given that it may be difficult to identify who is responsible for what.

Indeed, some situations are inherently complex. Figure 3.2, a modified and more realistic version of the above SNG diagram, illustrates the situation in Cambodia for an intermediate level SNG, such as a district council. Some functions are fully under the control of the SNG, but others are provided by line ministries in a deconcentrated fashion, with planning and budgeting for these services done by the respective line ministry at the central level. At the same time, the appointed board of governors, and notably its chair, has a supervisory role on these deconcentrated line ministry offices; hence, the management relations can easily get blurred.

Decentralization reforms always involve the transferring of functions and funds from the central to the subnational level. Sometimes, the lack of clarity

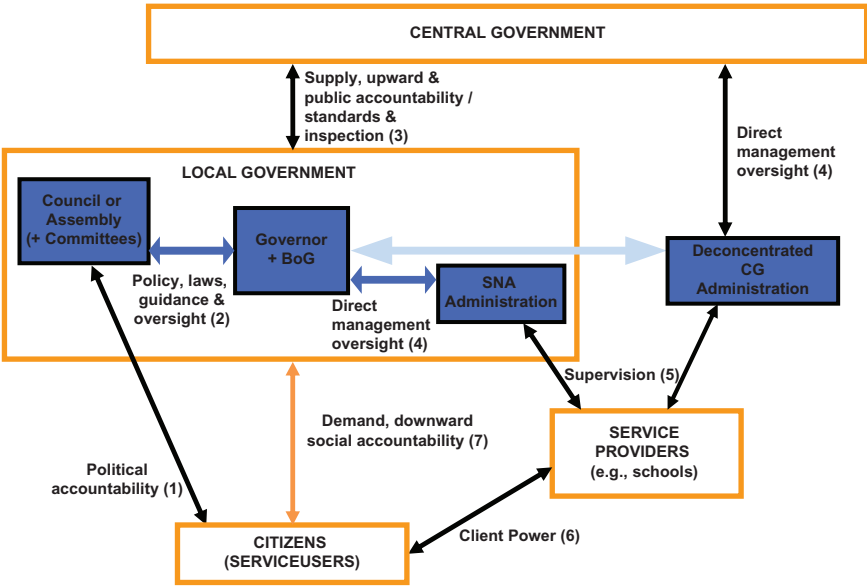


Figure 3.2 Hybrid Local Government Model (Cambodia).

Source: Author, earlier used in Land (2012).



is aggravated by other factors, for example an ongoing decentralization reform, which results in the transfer of functions being “work in progress.” This has been the case in Cambodia for a long time, as the country opted for a gradual and negotiated process to transfer functions from central government ministries to the districts and municipalities.<sup>3</sup> In the context of Figure 3.2, it took a long time for selected deconcentrated services to be moved into the box of the district local governments.

A second aspect that adds complexity is that often, notably in lower-income countries, the functions of SNGs are described in legal texts in an unsystematic, haphazard, and vague manner. Sometimes they take the form of a long list of very specific activities (including, for example, burial of deceased destitute persons and licensing of dogs) that lacks any reference to the bigger picture of mainstream SNG service delivery. Sometimes planning and budgeting is mentioned as a separate SNG task next to service delivery tasks (e.g., in the local government acts of Bangladesh). In other cases, the description of SNG tasks is more generic, such as in Cambodia, where the general SNG mandate is described as “to establish, promote and sustain democratic development” (Article 2 of the 2008 Law on Administrative Management of the Capital, Provinces, Municipalities, Districts and Khans). It is rare to see the functions of SNG tiers described in clear terms which include full coverage of sectors or subsectors (as a cluster of services).

Especially where SNGs have been provided with a wide range of *permissive* (allowable) functions but few *obligatory* functions, such long vague lists provide a weak starting point for oversight, supervision, and accountability, given that in such cases SNGs can be “everywhere and nowhere” at the same time. Obviously, this also hinders the steering of a planning and budgeting process, as it can go in all directions simultaneously.

Complexity and lack of clarity can also result from “lip service” being paid to decentralization and SNGs while actual political commitment (and the attendant allocation of resources and/or resource generating functions) to allow them to deliver is lacking. This often creates a gap between the *de jure* and the *de facto* situation. On paper, the country may be decentralized, but in reality, it is not. In Sri Lanka, for example, there are nine fully fledged provincial councils that are expected to “shepherd” the rural local governments at the divisional level. These divisional SNG institutions, however, can only muster a small part of the total public sector budget. Despite their mandates, most services are delivered by district level offices of the line ministries, located between the provinces and the divisions. In such situations, planning for service delivery at the subnational level is complicated by overlapping mandates and by SNGs being unable to perform as stated.

In general, on the relation between functional assignments and planning and budgeting, we can conclude that:

- The more administrative layers and subnational governance tiers exist, the more complex the separation of functions (and avoidance of overlaps) becomes.

- A clear differentiation in the roles of different tiers of government helps to avoid overlaps. Cambodia, for example, has clearly defined different roles for different tiers whereby the district level is responsible and plans for public sector service delivery, while the lower commune/*sangkat* is responsible for small-scale community projects.<sup>4</sup>
- A more holistic description of the boundaries of transferred functions also helps to reduce overlap, because it transfers functions in their entirety. At the same time, it does justice to the nature of decentralization which is about handing over total management responsibility in a confined area so that local priorities can be addressed according to local circumstances. For example, the district council may be responsible for the provision of all public education up to secondary level. Or, the district council may be responsible for the provision of all public health services up to the level of the district hospital while the provincial council is responsible for the supervision of the quality of health care in the district and provincial hospitals. In such cases, the SNGs retain management discretion and the expected outputs and the area of its mandate are very clear.
- The clearer functional assignments are (and often they are not), the more focused subnational planning and budgeting can be.

The latter two bullet points provide a clear model for the situation in Cambodia: below the province, districts are given the responsibility for service delivery in well-defined subsectors; below the districts, the communes have a different function altogether (small infrastructure works). Hence, by design, overlap is minimized.

### *Intergovernmental Fiscal Relations*

Planning and budgeting, as defined earlier, is only useful if there are financial resources to implement the plans. In most countries, SNGs are highly dependent on central government transfers (see Chapter 2). If fiscal transfers are insufficient, planning easily becomes a sterile or, at best, an anemic exercise.

At the extreme, the revenue assignments of SNGs (mandates to generate revenues through own sources, transfers, or otherwise) can be simply incompatible with their expenditure assignments (obligations to deliver certain services). In such cases, planning is still relevant to identify the highest priorities for the limited funding available, but SNGs that operate with their back against the wall on a permanent basis are unlikely to thrive. For useful planning and budgeting, the available resources need to be commensurate with the costs of the services that are to be provided.

There are four other requirements for transfers to facilitate subnational planning:

- First, planning is best done within known budget envelopes. For recurrent budgets, not knowing at least the broad terms of the envelope will lead to

bad management. For capital investment budgets, it is important to know upfront the size of the envelope, at least roughly; otherwise, the planning process is likely to lead to a long list of priorities, only few of which will be implemented. This is unsatisfactory for all parties involved. Hence, it is important that central government transfers to SNGs are communicated in time to inform the subnational planning processes.

- Second, for subnational planning to be meaningful and responsive to local priorities, there should be discretionary space for SNGs to make decisions. This can be in the form of discretionary grants that give SNGs a free hand to make decisions on their allocation, provided they are not totally operating on a shoestring whereby any revenues will go for salaries, or worse, salary arrears. Even sector grants can have levels of discretion that require some sort of planning. For example, a conditional grant in the education sector could set any of the following parameters:
  - build with this amount a school in locations A and B; or
  - build with this amount two schools in places of your choice while respecting the norms and standards as set by the ministry; or
  - use the amount for the most needed school infrastructure while respecting the norms and standards as set; or
  - use the amount to improve the quality of education in the district.

The choice of formulation depends on several factors, including the capacity at the subnational level, the trust of the ministry, and the policy objectives. Still, for decentralization (as opposed to deconcentration) to work, there must be some discretion for SNGs to make decisions. Otherwise, they become *de facto* deconcentrated units of central government rather than decentralized units on their own, which is unfortunately a commonly observed situation.

- Third, the timing and volume of transfers must be reasonably predictable. Short of that, the usefulness of any planning process is seriously hampered.
- Finally, arrangements should allow SNGs to enjoy their relative autonomy. As such, a form of nested budgets, where higher SNGs keep the budgets of lower-level SNGs should be avoided, as it could compromise the decision-making authority at each respective governance level. Equally, gap-filling transfer arrangements whereby higher levels foot the unfunded bills of lower-level SNGs should be avoided as this diminishes the responsibility of the concerned SNG tier.

### ***Necessary Conditions for Successful Subnational Planning and Budgeting***

In the first section of this chapter, we identified three necessary conditions for subnational planning and budgeting. First, subnational planning is a political process that builds upon the way a smaller or bigger community wishes to use public

resources. This requires a SNG with a duly representative governance body at the helm.

Second, the SNGs should have a reasonably well-defined set of sectors, subsectors, or clusters of service delivery functions for which they are responsible, and the discretion to do anything they consider important unless expressly prohibited (e.g., functions that are exclusive to the central government). Such an arrangement provides both focus and meaning to subnational planning.

Third, the way SNGs are funded should support the discretion of SNGs to make decisions they deem fit, based on the priorities and context of their jurisdictions. This is not to say that SNGs can do whatever they want; Figures 3.1 and 3.2 illustrate clear roles for the central government in setting policies, norms, and standards, and monitoring their implementation. But for planning to be meaningful, SNGs must have options to choose from.

In summary, the necessary conditions are elected representation, proper functional assignments, and a degree of discretion on the use of available funds. In addition to this, there should be a legal framework within which SNGs operate and which provides them with rights and obligations such as those discussed above. Usually, this is done in the form of a local government act, a local finance act, and further regulations. Such acts and regulations usually spell out minimum requirements for the planning and budgeting cycle(s) discussed in the next paragraph.

## 3.2 Subnational Planning

### *Participatory Planning*

SNGs are based on the principles of representative democracy; citizens elect their representatives who, for a defined period (i.e., until the next election), are authorized to take decisions on behalf of, and in the interest of, the electorate. However, a notable shortcoming of representative democracy (especially if the social contract is still weak and personal, often elite interests predominate) is that elected politicians often quickly forget about their election promises. Hence, there is a need to involve the electorate in SNG affairs through social accountability mechanisms and engagement in participatory planning and budgeting.

Participatory approaches in development cooperation emerged in the late 1980s after the shift from technocratic approaches to development that prevailed in the 1970s to more people-centered approaches.<sup>5</sup>

Participatory planning suited the area-based programs and other development projects that were in vogue in the late 1980s and 1990s. These projects had discretionary budgets that could be used to fund the outcomes of participatory rural appraisals and rapid rural appraisal (usually referred to as PRAs and RRAs) and other forms of participatory planning. At the time, participatory planning was part of emancipatory processes, not as an end goal but to boost democratic principles and support emerging democracies.

Subsequently, in the 1990s and 2000s, decentralization reforms were rolled out as a response to the observation that centrally organized sector departments were

not well equipped to deliver services attuned to local specifications. Development support thus shifted from rural development and isolated project support, which had failed to tackle systemic bottlenecks, to support for decentralization based on a more institutional and nationally owned approach. It is here where bottom-up participatory planning met with decentralized (subnational and local) governance mechanisms.

In several countries, such as Cambodia and Bangladesh, discretionary grants to SNGs for local investments have become part of the intergovernmental fiscal transfer system. In Cambodia, the commune/*sangkat* fund and the district/municipal/*khan* fund are now totally funded by government. The approaches toward participatory planning may have changed (and become less strict) as compared to when these funds were still provided under projects, but the idea that the population can, directly or indirectly via their elected representatives, have influence over the use of these funds has remained.

Budget transparency is often closely related to participatory planning. For example, SNGs in Bangladesh, stimulated by the conditions of the performance grant, publish their annual budgets outside the SNG building—sometimes painted on the wall or a notice board, just short of being cast in stone.

Participatory planning can take different forms. In an ideal situation (see Figures 3.1 and 3.2 above) citizens communicate with their elected leaders, who take the best possible decisions in the general interest with regards to the entire SNG budget. Participatory planning can also take the shape of open budget meetings. Usually, however, such meetings serve to communicate an already fixed plan and budget to the population, thereby limiting the public's opportunity to have a voice in the planning and budget allocation process.

In most cases, participatory planning and budgeting provide for direct citizen engagement in allocating a much smaller part of the budget. In a way, this process bypasses the democratic model of subnational governance, with the argument that those authorized to make decisions (the politicians) often do not act in the best general interest, and that they need to be shown what people want them to prioritize. It should be seen as a mechanism—hopefully temporary—to include citizens who mistrust their government in a public process they have so far been excluded from.

In some situations, the state has been absent, or just nascent, with a poorly developed sense of the social contract. In this case, people may have little trust in their government, and involving them directly in decision-making can help to build or rebuild the state and its legitimacy. This aligns with one of the two basic principles of decentralization: (i) the sharing of power and decision-making, and (ii) giving people a sense of ownership in the business of the state.<sup>6</sup> Having a *voice* and the *right to be heard* are fundamental elements of people's wellbeing. Even if those can be realized with a small part of the budget, it is important to remain mindful of the circumstances and the specific goals of the participatory exercise, while keeping in mind that the entire SNG budget ought to be allocated in response to peoples' needs.

Finally, it should be mentioned that, by its nature, planning is not only a political decision-making process, but also nearly always an opaque process,

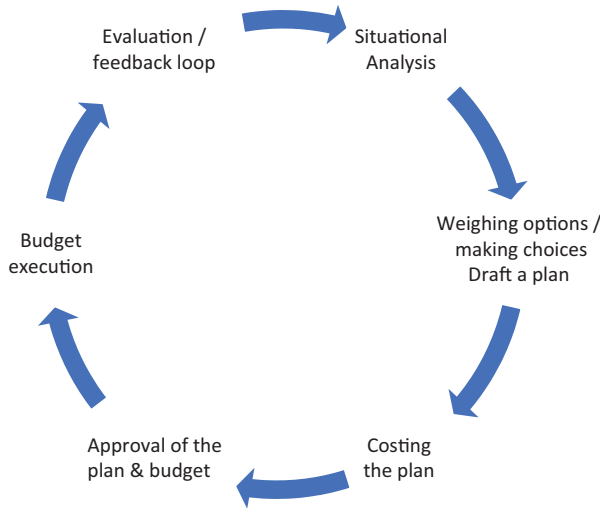
even if all participants are fully committed to transparency. It is a process that involves a variety of people interacting with each other: civil servants in the respective sector departments, citizens and interest groups that lobby, sometimes members of the national parliament who try to exercise influence, and the elected councilors themselves. Sometimes (as in Bangladesh) a directly elected chair with specific interests and central government ministries may formally (through policies, norms, and standards) and informally try to ensure that the subnational plan serves the sectoral interests. As such, a planning and budgeting process is never a straight line from point A (inputs into the plan) to point B (the final plan with budget). It comprises many discussions, much pushing and pulling and talking and lobbying, all of which funnels a draft plan, written by whoever “holds the pen” (usually the planning officer). The draft plan is then subject to discussions and approval by the assembly or parliament. As such, a planning and budgeting process is always, by default, quite opaque if not messy.

### ***An Ideal Annual Planning and Budget Cycle—Evidence-Based Planning***

Ideally, a planning process starts with a description, assessment, and analysis of the actual situation. It stipulates service delivery needs and objectives (“we need good schools to give our children a better future”), the actual service levels (“the classrooms are too full”), and the proposed action (“build additional classrooms using the district development budget” and “ask central government to provide more teachers”).

Typically, for an annual planning and budget cycle, the following six steps are distinguished (see Figure 3.3):

1. *Situational analysis and needs assessment*—within a sector or across sectors, depending on the source of finance and formulation of broad priorities.
2. *Planning and making choices*—comparing the pros and cons of different options for using the scarce resources and deciding on the order of priority: resources can either be spent in sector A or sector B, project X or project Y; planning is always about making choices.
3. *Making a budget*—costing the proposed actions for the identified and retained priorities.
4. *Approval of the plan and budget*—approval of the budget also implicitly represents approval of underlying plan (as an illustration of the saying “money talks”).
5. *Budget execution*—implementation of the plan is usually called “budget execution” rather than “execution of the plan,” which may be linked to the fact that the plan and budget are approved by the assembly in the form of what in several countries is called budget law.
6. *Evaluation of the plan execution and its impact*—this informs the next round of planning and budgeting.<sup>7</sup>



*Figure 3.3* Planning and Budgeting Cycle.

Source: Author.

Steps 1 and 2 combined are usually called “planning” and steps 2 and 3 are often iterative; this is certainly the case during the initial informal stages of the planning process, as the costs of possible actions determine their feasibility. This is again an illustration of the notion that planning and budgeting are two sides of the same coin.

In an exercise of participatory planning, a local development fund (LDF) project around governance in Myanmar<sup>8</sup> brought the first three steps of planning and budgeting together, as is reflected in the questions on the project justification sheet (see Figure 3.4).

In addition to initial questions regarding the situational analysis and objectives of the proposed subnational or local infrastructure project(s), several questions can be used to assess the pros and cons of a particular project. These should be evidence-based as much as possible, using available and applicable data.

For larger projects, similar “pros and cons” analyses are made, sometimes in pure economic terms. This is called a cost–benefit analysis; when choosing between two projects, the one with the highest rate of return on investments is retained. When there are many different options and it is not possible to do detailed calculations for each, the ones above a certain cut-off rate of return are retained.

The point is that it is often impossible to compare all options—not only in economic terms, but also regarding the number of beneficiaries, the impact on those beneficiaries, aspects of equity and access, environmental concerns, and other considerations.

**TDLG - Project sheet**

Project sheet for <<project name>>
<b>1. Describe the problem the project seeks to address</b>
<b>2. Objective / justification / rationale: explain how the project addresses the Stated problem</b>
<b>3. Describe the project and its activities</b>
<b>4. What is the project location or locations?</b>
<b>5. Describe the project benefits and the number of beneficiaries</b>
<b>6. Provide a detailed (itemized) budget for the project</b>
<b>7. Is the project inclusive? Can everybody benefit in the same manner? Could the project have negative impact on certain people or environment?</b>
<b>8. Who will be responsible for leading implementation of the project?</b>
<b>9. Who is responsible for management of the project assets after project completion?</b>
<b>10. What are the arrangements for operation and maintenance (O&amp;M)?</b>
<b>11. Are there any staffing requirements? Are they fulfilled?</b>
<b>12. Is any government approval required? Is it obtained?</b>

*Figure 3.4* Local Development Fund Project Justification Sheet: Myanmar.

Source: Author, for UNDP Myanmar, TDLG project.



In that sense, it is a blessing in disguise that only small parts of SNG budgets are fully discretionary; otherwise, the range of options would simply become too big and budgeting too complicated. But it also underlines the points made above: that planning is a political process of deliberations before coming to a decision, either by vote or consensus; that it is by nature a little opaque if not messy; and that the result is as good as it can be (as there is no theoretical optimum).

Two further observations must be made. First, to ensure minimum service delivery levels across the country, sector ministries may issue policies, norms, and standards with which SNGs mandated with service delivery in those sectors must comply. This is largely to ensure equity. For example, in cases where SNGs are responsible for primary education, minimum standards may be set based on national policy for the maximum number of students per teacher, the maximum number of students per class, etc.

Second, in most countries, much of the SNG funding comes through a series of conditional sector grants. The conditionality based on sector policies will often steer the investments, thereby limiting the scope for “the sky is the limit” planning by SNGs.

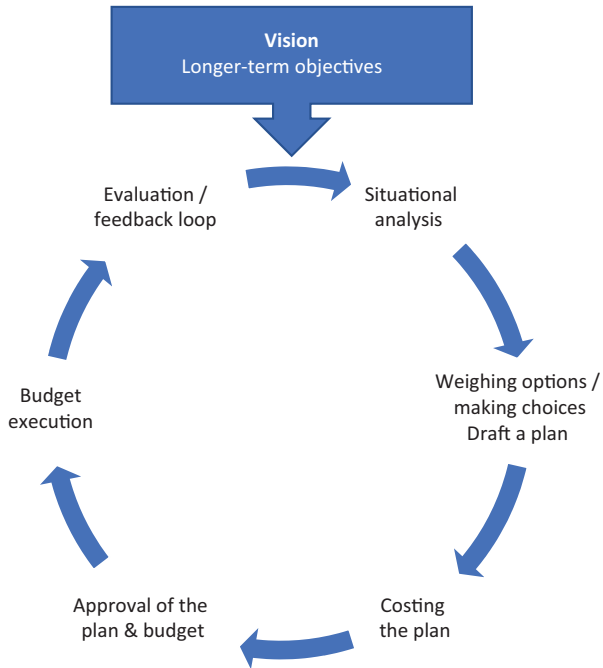
The actual situation, which varies from country to country, is one of balancing different policy priorities and different interests, with part of the planning done within the silo of the source funding. The right balance is achieved when national policies are realized and SNGs still have space to take their own decisions based on local priorities and needs. This also honors the political aspect of decentralization, allowing the electorate, to an extent, to take their own decisions.

### *Annual Planning and Planning with Different Time Horizons*

This chapter has so far discussed annual planning and budgeting, which is by far the most prominent type of planning that has direct relevance to citizens.

However, annual planning, certainly for capital budgets, should ideally take place in the context of medium- (5–10 years) and longer-term plans. Many SNGs do not have such medium- and long-term plans, even though their annual plans are usually guided by an implicit or explicit vision. The purpose of a medium- and longer-term plan is to make the government’s longer-term vision more explicit, allowing discussion and debate (hence participation) on the objectives for the sector in question.

Medium- and longer-term plans are often more relevant for larger SNGs, notably urban local governments that need to plan well ahead for expansion and infrastructure to allow proper and controlled city development. For smaller and more rural SNGs, medium-term plans may take the form of a three-year rolling plan, but most often the significance of the two outer years is less relevant. In either case, a longer-term vision should be added to the planning and budget cycle (see Figure 3.5). The shape and formulation of such a vision depends on the size of the SNG, the functions for which it is responsible, and the sectors (one, more, or all) involved.



*Figure 3.5* Planning and Budgeting Cycle (infused by a longer-term vision).

Source: Author.

Usually, longer-term plans have no budgets attached to them and funding needs to be ensured through the annual planning cycles. This requires qualified management that is capable of steering annual plans based on longer-term plans. Too often, however, such plans, often made with external funding, end up unused on the shelf. In fact, such plans are useful only to the extent that SNG managers want to be guided by them. This requires the exercise of some discipline by both the SNG management and the politicians.

### *Different types of planning for different purposes*

Apart from different time horizons, there are also different types of planning, some of which are briefly described below (and the list is not exhaustive):

- *Urban (or spatial) planning*

Spatial planning is particularly relevant for urban SNGs that need to plan for controlled city development, notably urban infrastructure and municipal services. Urban plans are usually longer-term plans that include zoning (designating

different zones for different uses), provision for roads and transports, and housing and recreation, among others. Traditionally, urban plans are quite technocratic, driven by urban planners. For SNGs with an increasingly vocal citizenry, the challenge is to provide for consultations and citizen participation in the development and updating of these plans.

- *Sector planning*

Sector planning is longer-term planning. It establishes the vision for a particular sector and describes the broad avenues for achieving it.<sup>9</sup> With the exception of larger local governments (e.g., metropolitan planning for water), sector planning is mostly performed by either a higher-level SNG or administrative tier, or more often a national line ministry. The sector plans can be either the basis or the longer-term operational plan for a sector policy.

The type of sector planning relevant to SNGs, notably urban local governments, is planning for municipal services, if such are considered a sector. These include such activities as streetlights, complementary road infrastructure such as signaling, sidewalks, bicycle lanes, pedestrian crossings, drainage, sewerage, solid waste management, and public spaces. While it may in part overlap with urban spatial planning, planning specifically for municipal services as a sector would go further as it includes planning and budgeting for concrete types of service delivery.

- *Project planning*

Project planning is, in a way, the direct opposite of spatial and long-term planning, as it usually refers to the planning and execution of a well-defined activity. An annual plan and budget of an SNG usually contains a bundle of smaller infrastructure projects, and project planning is part of project management, making sure the project is delivered in time and within the given project budget.

In the Yangon Future Cities Project, project planning could be used to create bike lanes and improve the pedestrian pavement areas, although the longer-term objective of the project was to move from project planning to more inclusive urban sector planning. In Tbilisi (Georgia), inputs from diverse groups of people in the community were used in the design of a park and recreation area in a low-income residential area of the city. The participatory planning tools used in this instance could easily be used by people of all ages and abilities (Brown et al. 2021).

- *Strategic planning*

All planning needs to be strategic in the sense of always aiming for longer-term goals, even as part of short-term actions. However, the term “strategic planning” does not refer to a plan document and a budget, but rather to management

practices. It provides guidance for an organization (be it a company or a SNG) to achieve its overall objectives within its available resources.

As such, strategic planning is not a subject that automatically belongs in this chapter. However, there is little doubt that SNGs could benefit from more strategic planning and management, like the private sector.

- *Multi-level planning*

Multi-level planning refers to planning that takes place at different governance levels. Table 3.1 shows that most countries in Asia have two or three sub-national governance levels. With central government included, which in most countries are still the dominant level, there are three or four levels of government that have annual planning and budget cycles. Multi-level planning is not so much another planning cycle, but rather the alignment of public resources at to ensure that they meet national policies objectives and that public funds are not wasted by different levels of government working at cross purposes. For example, if one level is to construct the avenues and another the side streets, the overall allocation is most efficient if both levels play their part; an avenue with side streets that do not lead to a main traffic artery may be better than nothing at all, but having both constructed in a coordinated manner would make more sense.

In a totally centralized country with only a parliament approving the budget at the national level (or no parliament at all), in theory, multi-level planning would be irrelevant as all planning is ultimately done in one place. In reality, however, even a centralized country has different sector ministries that plan within their own silos. This creates a need for cross sectoral planning and coordination in the same way as multi-level planning seeks to align levels. The original idea that all plans cascade upwards to be aggregated at the next highest level (until it reaches the summit, for example in the form of a planning commission) is largely abandoned. Complex, modern societies simply cannot be managed like this anymore, hence the process of decentralization. On the other hand, the principles of decentralization imply that SNGs have their own discretion, ideally within well-defined parameters. Hence, multi-level planning and alignment cannot be dictated. Rather, it is ensured through myriad institutional arrangements that guide lower levels of government while leaving them enough space to take their own decisions, combined with mechanisms for deliberation and joint decision-making. For example, an approved provincial territorial/spatial plan, for which district councils would have been consulted, and which was debated with them, would guide and provide a unifying frame for subsequent district plans.

This discussion shows that a clear delineation of functional assignments is a necessary yet insufficient condition for efficient use of public resources. Again, subnational planning and budgeting does not take place in isolation; it is part and parcel of public sector planning involving all levels of government and in which SNGs have discretion for certain well-defined areas.

### ***Gender-Responsive Planning and Gender-Based Budgeting***

A subset of planning approaches that differs from those mentioned in the previous section is gender-responsive planning. Overall, planning is

a systematic process of identifying priorities, developing strategies and based on this, outlining the necessary actions or interventions to achieve the planned goals and objectives. Good planning is insightful, comprehensive and strategic ... For planning to be effective and meaningful, it necessarily must factor in and respond to the differing needs of different segments of the population.

(UN Women 2013:3)

In recent decades, there has been a growing recognition that gender is a critical category of analysis and must not be overlooked in planning. Therefore, it is important that mainstream planning processes (as those described above) not only identify and address the needs of women, but also draw on their knowledge and recognize how women's contributions have changed and shaped development. Plans must also consider how prioritized actions will impact women, men, girls, and boys.

The purpose of gender-responsive planning is "to ensure gender-sensitive policy outcomes through a systematic and inclusive process" (ibid.:3). Gender-responsive planning adds another lens (or layer) to the planning process. In principle, similar lenses could be applied (or requested) for other minorities or marginalized groups. Following this, gender-based budgeting means ensuring that gender-responsive planning is appropriately translated into budgets.

### ***Roles of Central Government in Subnational Planning and Budgeting***

Previous sections of this chapter have made clear that SNGs do not operate in isolation or with total discretion. The extent to which a country is decentralized can be seen in the tools used for steering SNGs, which can range from blunt to much more subtle and sophisticated.

An example of a blunt tool is a requirement that SNG plans be approved by higher levels of government such the ministry responsible for SNGs, or, as in Nepal for the capital budget, the Planning Commission. Higher approval could also be required for projects of a certain size.

Declaring a certain activity a top national policy priority (like Pakistan's *Ten Billion Tree Tsunami*) and requesting all SNGs to use a substantial part of their budget for this purpose is another way in which the national level may influence subnational planning. Although this may be seen as one level overruling the other and infringing on SNG sovereignty, it should be recognized that national level representatives are also elected by their constituents and that such influencing is, in fact, part and parcel of a normal planning process. Likewise, ministers and

sector ministries for which certain services are devolved may try to convince SNGs to invest in certain activities. Such is their role, although the line between instructions and advice needs to be found and respected.

Line ministries also have more formal and legally embedded ways to influence and steer subnational planning and budgeting. The first way is through national (sector) policies. The second is through issuing norms and standards, as in the earlier example of the education sector. Third, depending on the fiscal arrangements, line ministries can steer the use of conditional sector grants through the conditions, as in the examples mentioned earlier.

Planning ministries may be involved in creating guidelines for planning processes and in developing and approving formats for how plans should look. However, their involvement in *what* SNGs should plan for is usually limited. Planning ministries that were very powerful in the past, not the least because they often controlled capital budgets, seem to be losing relevance as societies evolve, and the roles of line ministries seem to increase along with the always steering arm of the finance ministry. This will be discussed further in this chapter.

### 3.3 Subnational Budgeting

#### *Participatory Budgeting and Its Scope*

The city of Porto Alegre in Brazil is reportedly the first municipality in the world that used, and as such invented and pioneered, participatory budgeting around 1990. The timing aligns with the timeline mentioned above where participatory approaches emerged in the second half of the 1980s as a reaction to prior technocratic approaches that had their limitations.

UN Habitat defines participatory budgeting as “a mechanism (or process) through which the population decides on, or contributes to, decisions made on the destination of all or part of the available public resources.”<sup>10</sup>

Although known as *participatory budgeting*, even from the definition the term clearly refers to *participatory planning and budgeting* as two interlinked elements of the same process of democratic deliberation and decision-making on public resources. In this section, we will look at planning and budgeting from the financial perspective, but it is important to first discuss the scope of participatory planning.

In earlier sections, we basically looked at aspects of planning for the total SNG budget. However, participatory budgeting often deviates from that in two ways. First, it only deals with a small part of the SNG budget (in Brazil, where the process originated, typically between 2% and 10% of the total budget). Second, it is not the elected council, but rather ordinary people who *decide how to allocate the part of a municipal or public budget that is set aside for this purpose*. Typically, designated neighborhood committees are set up that discuss possible project proposals among themselves and with the citizens, prior to drafting a plan and budget that is put to a public vote. The elected council remains the ultimate

decision-making authority as it has to endorse the participatory budget, but it would normally not dare to interfere.

This approach has certain similarities with the local development funds (LDF) and performance-based grants that were promoted by the UN Capital Development Fund (UNCDF), the United Nations Development Programme (UNDP), and the World Bank (for example, in Lao PDR, Bangladesh, West Bengal, and Myanmar) in the sense that a budget envelope is made available for public deliberations on its use. Crucially, however, these projects would go through the existing (or future) SNG institutional arrangements instead of electing parallel committees. Both approaches seek to facilitate citizens to identify, discuss, and prioritize public spending projects, and to give them power and/or influence to make real decisions about how public resources are spent. A crucial difference is that the *participatory budget* and affiliated approaches are restricted to a relatively small part of the total SNG budget, and do not seek to influence or engage with the overall SNG planning and budgeting process. The LDF is different in that sense, as under the performance assessment system, embedded in its approach, the fund is meant to have a good governance impact on the *total* SNG budget.

As such, the participatory budget mechanism as originally designed should probably not be automatically recommended as a first option given the state of affairs of SNGs in Asia, even though it has positive elements. In fact, at present and in efforts to revive democratic processes, pilots are being done in Europe with *citizen funds*, which are relatively small amounts made available to neighborhood committees for upgrading the neighborhood through improvements they deem fit. But in general, tools and mechanisms should be tailored to specific situations. Participatory budgeting emerged in Porto Alegre as a local response to a particular challenge and may not easily be transferrable to other contexts. One has to always remain cautious and conscious of context.<sup>11</sup>

### *Differences in Planning for Capital and Recurrent Budgets*

In many countries a distinction is, or was, made between capital and recurrent budgets. Even if such a distinction is not made, which now seems to be the trend, it is good to realize that planning usually refers to capital expenditure, because flexibility and levels of discretion, at least in annual budgets, is fairly limited for recurrent expenditures, including salaries and basic office operations. Usually, capital expenditure budgets are more flexible.

Not surprisingly, participatory LDF funds were usually earmarked for small capital investments.

This was also related to the fact that donors were concerned that funding recurrent costs through projects would be putting money to an infinitely deep well with limited visibility, while capital investments would lead to visible output. However, especially during the initial stages of improved SNG planning, the link between recurrent budgets and capital budgets was not always properly considered or even understood. But obviously, capital investments that may have

been decided upon as a one-off event will in most cases also have implications for recurrent expenditures (more classrooms require more teachers, more desks that need to be replaced every so often, and, in Mongolia, higher heating costs) on an annual basis.

Whereas planning for recurrent costs on an annual basis is restricted because those costs are based partly on prior commitments and are often fixed costs (including salaries for most SNG staff), longer-term projections for recurrent budgets can reflect either a vision or a given reality (or combination of both).

### *Different Time Horizons*

As is the case for planning, there are also different time horizons for budgeting, usually three to five years. For national governments, this is usually in the form of medium-term fiscal frameworks, which make estimates and give direction to income and expenditure trends, by sector and subsector and by type of expenditure.

Most of the almost 425,000 SNGs referred to in Table 3.1, however, are unlikely to apply longer-term fiscal forecasts. Only the larger, more sophisticated, urban local governments may have both the capacity and the volume, in terms of budget and scale of activities, to engage in such activities.

Many SNGs have a “hand-to-mouth” life and are happy with a properly funded annual planning and budget cycle. As mentioned above, sometimes SNGs are encouraged to prepare three-year rolling plans, but their usefulness is doubtful because the enabling environment (capacity, predictability of funding, scale of operations, and management capacity, among others) are not yet at the level to warrant such exercises.

### *Annual Planning and Budget Cycles*

For most SNGs in Asia and elsewhere, the main planning and budgeting exercise is the annual planning and budget process. In countries that have a medium-term expenditure framework (MTEF), the central government, notably the ministry of finance, may issue, well ahead of the start of the subnational planning cycle, a budget brief or budget circular that guides budget entities, including SNGs, in the preparation of the next year’s plan and budget, while also providing tentative budget ceilings.

Depending on the number of governance levels, the MTEF process includes at least one feedback loop before the central government budgets (with the allocations for SNGs) are finalized. This is another example of a mechanism to ensure multi-level planning, as discussed above.

Based on the final budget allocations as set by central government and estimates of their own-source revenues and other revenues, the SNGs will prepare, fine-tune, and finalize their annual plan and budget following the six steps outlined in Section 3.2 above. In fact, the steps of both the MTEF process and the SNG planning process are not purely sequential; many of them take place in



parallel and in an iterative manner, which is another illustration that a planning process is always a little opaque.

Typically, at the subnational level, the budgeting starts with preparing an overview of all likely sources of income and their respective levels of discretion in using the funds. Then, an overview of all unavoidable recurrent costs, as well as already committed capital expenditures (e.g., contracts already signed but not completed), is prepared. Comparing the two provides an indication of the budget that can be subjected to some sort of a planning process.

These steps may look fairly simple. But in reality, even an average district council may need to consider five to sectors or departments and at least three to five (but often many more) sources or streams of funding. Further, some of those sources may be unpredictable, either in timing, in volume, or in both. Considered from that angle, the administration and financial management of even a relatively small SNG can already be quite a challenge. Urban local governments with budgets equivalent to millions, if not tens of millions, of US dollars can easily be compared with a mid-level company. As much as SNGs are often criticized for not delivering (and other shortcomings), the challenges faced by SNG managers should not be underestimated.<sup>12</sup>

### ***Budget Typologies***

Just as there are different types of planning, there are different budget typologies, reflecting different ways budgets are presented or prepared. Four types are briefly described below:

- ***Budget line items***

The traditional way of presenting a budget is by line item, under the different budget entities. For SNGs, these are usually the departments, with the head of the department being the budget-holder. In the past, line items could be defined by the SNGs, but currently, in most countries, SNGs are required to use the lines as available in the *standard chart of accounts*, which allows comparison and aggregation across SNGs and ensures standardization. Most SNGs use this way of budget presentation as it links the organizational structure to the budget without too many complications.

- ***Balanced (excess or deficit) budgets***

Most SNGs operate based on a balanced budget, where the planned expenditures are in balance with the anticipated incomes. Although it sometimes happens that an SNG has a surplus (for example, local government accounts in Cox's Bazaar, Bangladesh show the creation of reserves), in most cases the financial situation has no scope for budget excesses. In several countries, rules determine that at the end of a financial year any central government transfers that have not been used

shall be returned to the national treasury, which is another incentive to spend what comes in.

For macroeconomic reasons, such as the need to generate additional demand and boost the rate of economic growth or address concerns about unemployment, central governments may consider having deficit budgets (financed through, for example, government bonds), but this does not apply for SNGs.

Moreover, in many countries with emerging economies, due to a perceived weakness in their management capacity (whether real or not), SNGs are not allowed to borrow money even for capital investments that are depreciated (written off) over a long period.<sup>13</sup> This means SNGs can only make capital investments to the tune of their annual capital budget.

- *Output, program, and performance-based budgeting (PBB)*

Although not necessary, a line-item budget tends to be input-based, as it calculates the costs of the inputs considered necessary for the budget unit (department) to deliver the services mandated in its plan. Over the years, efforts have been made, in both the private and public sectors, to better articulate in the budgets the relationship between program funding levels and expected results from that program. In the public sector, this trend has been driven by international development agencies and incorporated into development projects.<sup>14</sup> Simply put, instead of presenting anticipated expenditures by line item (input), output, program, or PBBs cluster these expenditures by output or program area.

As much as PBBs help to draw attention to the targeted outputs, the difference between a line-item budget and a PBB is in fact gradual and depends on the creativity and commitment to transparency of those who create the budget. If an SNG department is reasonably organized and has a solid plan (with a vision and clear targets), a line-item budget by section (sub-department) is simple, understandable, and transparent. Hence, it is easy for officials to follow. On the contrary, a PBB where all types of costs can be lumped under a program heading can be extremely opaque. In fact, output- and PBBs work best in situations where the budget manager has, on the one hand, full responsibility, and, on the other hand, can be fired or demoted if results are not achieved. Usually, SNGs, and certainly small and emerging local governments, do not operate on that basis.

### *Roles of the Finance Ministry*

As much as line ministries can steer planning and budgeting in SNGs, the role of the ministries of finance is much bigger and cannot be overstated. Ministries of finance (MOFs) can make or break SNGs, and successful decentralization is usually championed by the same ministry.

MOFs can facilitate or obstruct subnational planning in different ways. We have already seen what SNGs need for a useful planning process:

- Revenue assignments (levels of income through grants, own-source revenue, or otherwise) commensurate with the service delivery mandates bestowed on them.
- Sufficient levels of discretion.
- Stability and predictability in revenues, including transfers.

Not much more, but also certainly not less than that.

### **3.4 Budget Execution and Impact Evaluation**

The immediate purpose of planning and budgeting is of course budget execution; it remains unclear why this is not called plan execution. As illustrated in this chapter, one can look at the same process from two angles: often, the budget (“money talks”) takes the upper hand, but the entire process of setting objectives, identifying priorities, and weighing options prior to taking a collective decision are equally important because they are at the origin of the final budget.

Whereas the planning process may take around four months, budget execution takes the full 12 months, and the SNGs bear full responsibility. The central government, however, through the ministries responsible for SNG and finance, and the concerned line ministries, retains a right and responsibility for oversight.

Formally, execution of the budget comes to an end through an audit. The arrangements may differ from country to country, but generally the office of the auditor general or a similar structure plays a key role.

During the year of budget execution, the SNG must assess and evaluate implementation as part of its routine management function and as an input into the next planning and budget cycle. In such assessments, whether formal or informal, the thinking behind PBB would be useful.

### **3.5 Lessons Learned and Remaining Challenges**

#### ***Thinking about Subnational Planning and Budgeting Has Changed over Time***

Among development practitioners, subnational planning and budgeting—usually with the adjective “participatory”—was seen as part of an emancipatory process, providing ordinary people with a *voice*, and connecting or reconnecting them to the apparatus delivering public services. As such, participatory SNG planning is related to a small part of SNG public sector budgets, and an even smaller part of total public sector budgets.

Over time, such roles for planning and budgeting are bound to disappear as governance systems evolve, the social contract gets stronger, and a society of trust emerges. As societal trust increases (and participation is time consuming) mechanisms of representative democracy will kick in, whereby elected representatives take decisions on behalf of all. At the same time, line ministries will gradually find ways to gently steer SNGs from behind. In stable and mature democratic

systems such as in Scandinavia, people do have opportunities to raise their voice, but they rarely directly engage in SNG decision-making. The mere fact that they *can* engage if they want has, in many instances, replaced actual engagement. If and when such processes will also unfold in countries across Asia depends on how the relationships between the state and the citizens further shape up. In countries that operate as neo-liberal autocracies, having a voice in part of the SNG budget could be, for the time being, the best people can hope for—even when they deserve a say, directly or indirectly, in the total public sector budget.

### ***Planning Is a Political Decision-Making Process—There Is No Single Best Outcome***

Looking at SNGs more holistically opens the planning process as a political decision-making process where many actors play a role, including subnational civil servants, elected representatives, sometimes directly elected mayors, members of parliament, lobby groups from both the private and public sector, and central government agencies.

A decent planning process allows all these parties to have their say before a final decision is made through vote or by consensus, and after deliberations that should have benefited from data and evidence. The approved plan and budget are the outcome of such a public process. Not everybody may be in total agreement, but still *it is what it is*: a commonly reached agreement.

Hence, support for subnational planning and budgeting is not about making better plans but about improving the process of making such plans; i.e., making planning better. This largely takes the shape of supporting the principles of good governance:

- Ensure inclusiveness so that everyone, including minorities and marginalized groups, can have a voice.
- Ensure transparency so that all who are interested can participate based on a level-playing field.
- Ensure accountability so that feedback loops can be activated.

Supporting these aspects will help make subnational planning and budgeting a little less opaque, while at the same time recognizing that it is an iterative multi-stakeholder process, guided by the rules of democratic subnational governance.

### ***Subnational Planning and Budgeting Are Part of a Public Sector Matrix***

Planning at the SNG level is a complicated process. It becomes even more complicated if we also consider the various horizontal governance levels and the vertical sectors. SNG planning and budgeting is like a multi-stakeholder process in one cell of a bigger public sector matrix.

There is no right or wrong, but rather a complexity of processes (including the various multi- annual, spatial, and sector plans) pushing with different forces in the same or different directions. The outcome is a “resulting vector” in the shape of an annual plan and budget.

To properly support subnational planning and budgeting one needs to be aware of all these aspects, in addition to understanding the governance system, the functional assignments, and the system of SNG finances.

In addition, before supporting subnational planning and budgeting, one needs to know whether the interest is in improving the quality of the process *per se* while being indifferent to the planning outcomes, or in pushing the budget allocations in a certain direction, thereby becoming a stakeholder party that engages in the political decision-making process. Both interests are valid, but they require different approaches and instruments. Many development practitioners, however, would claim to improve the process, while in fact they seek to influence the outcome.

### ***Need for More Strategic Planning and Strategic Management***

From a more technical perspective, one of the most important aspects of planning and budgeting is the very first step of the process: formulating a vision, long-term objectives, and practical goals. Budget techniques like PBB have drawn attention to this, yet from different perspectives. Too often, SNGs are managed as “business as usual.” There is room for more strategic management and for SNGs to be seen as entities that have a responsibility to deliver. SNGs should be encouraged to be ambitious and visionary, and to reach as far as they can with the means they have.

### ***Subnational Planning and Localizing the Sustainable Development Goals***

An entry point for such strategic management could be a situational analysis (the first step in Figure 3.5 after the formulation of the vision) that takes the Sustainable Development Goals (SDG) indicators as an entry point.

Since most development takes place at the subnational level—in the cities, towns, and rural areas of each country—and most public services impacting peoples’ lives are delivered at the subnational level, the 2030 Agenda for Sustainable Development is very relevant for SNGs. In fact, each country, each state/region/province, as well as each local government is invited to define its own development priorities, within the context of the SDG framework. This allows different countries, and different government levels within each country, to work together more effectively in achieving sustainable development.<sup>15</sup>

Subnational planning and budgeting as discussed in this chapter is usually rooted in governance systems. The SDG localization approach adds, or can add, a territorial perspective toward measuring development outcomes across the 17 SDG dimensions in any given SNG area. In fact, the SDG approach allows a

government to take service delivery as the starting point, regardless of which governance level provides these services; make assessments; and subsequently ask how the SNG can best contribute to meet demands. This could be through implementation from its own budget, by alerting other government tiers or parties, or by exerting claims or pressure. It would potentially enhance the role of SNGs as local stakeholders on behalf of the local population.

It makes sense for SNGs to consider setting goals and priorities for their plans based on relevant SDG (sub)indicators. Using selected SDG indicators for a situational analysis would help standardize the measuring of development outcomes across SNGs, across agencies, and across countries.

## Notes

- 1 In Myanmar there are 5 administrative levels: the central government, 14 states and regions, 67 districts, 330 townships, and the wards. There are elected governance bodies (*legislative*) only at national and state/region levels. All references to Myanmar in this report refer to the situation prior to the event of 1 February 2021.
- 2 This means officially and legally, as compared to the actual practice.
- 3 As well as *khans* (urban sectors) in the capital city. The gradual process is a big difference from Indonesia's big-bang approach, where service delivery mandates were shifted almost overnight by instructions from the top.
- 4 See also Chapter 8.
- 5 See, for example, the influential study by Michael Cernea (Cernea 1985). As much as such approaches appear more common in Africa at the time, they also existed in Asia, albeit to a lesser degree than in Africa. It should also be noted that participatory planning is not limited to development cooperation; it also exists in places such as Europe, although often with less interest of the public as they trust the social contract and their elected leaders. But there are examples of high public interest and involvement; for example, participatory consultations over a new bridge in the center of Stockholm went on for years before a conclusion was reached.
- 6 The other principle is the economic principle of subsidiarity, effectiveness, and efficiency in allocations. The principle of sharing decision-making power on public resources is sometimes also called the political argument for decentralization.
- 7 The six steps are not cast in stone. Sometimes the first three steps are combined under "budget preparation," bringing the number of steps to four. The last step, especially when looking at the cycle from a public financial management (PFM) perspective includes audits, but audit results rarely feed back into planning rather into improving financial management.
- 8 The Township Democratic Local Governance (TDLG) Programme, UNDP-implemented and funded by the Swiss Government, served as a precursor to townships becoming quasi-local governments; it brought together elected ward officials at township level as a quasi-council to discuss how it would use a township development grant for public service delivery.
- 9 The 'side streets and alleys' are defined in operational shorter-term plans, including annual plans and budget.
- 10 See [www.unhabitat.org/sites/default/files/download-manager-files/72%20Frequently%20Asked%20Questions%20about%20Participatory%20Budgeting%20%28English%29.pdf](http://www.unhabitat.org/sites/default/files/download-manager-files/72%20Frequently%20Asked%20Questions%20about%20Participatory%20Budgeting%20%28English%29.pdf)

- 11 See Paul Smoke on “Accountability and citizen participation at the local level” on [www.youtube.com/watch?v=zcTsMb584hw](http://www.youtube.com/watch?v=zcTsMb584hw)
- 12 The fact that SNGs are often criticized, and sometimes rightfully so, is probably also a feature inherent to SNGs and decentralization, as people close to the action see what is (or what is not) delivered and they know whom to blame. However, in the ideal situation, the critical voice should go to address the issues.
- 13 In 2019, a delegation of Myanmar civil servants to Sweden heard that Swedish municipalities sometimes borrow up to USD 500 million for solid waste plants that are subsequently written off over a period of 70 years (with balanced budgets). Most SNGs, in Asia and elsewhere, do not have such opportunities (even if much smaller) as borrowing is often prohibited.
- 14 Notably UNDP is a strong proponent of output-based budgeting.
- 15 See Chapter 6 for an in-depth discussion of the “localizing the SDGs” discourse globally and in the region.

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# 4 Sector Decentralization and Functional Assignment in Asia and the Pacific

*Rainer Rohdewohld*

## 4.1 Introduction

It has been pointed out earlier that decentralization, especially the devolution modality, is deeply political. Decentralization “as a process of reforming the centralized state, necessarily leads to a realignment of power, privileges, and resources in society” (Singh 2014:677). In the same manner, sector decentralization will lead to a realignment of power, privileges, and resources within the sector. Sector institutions at different levels of the state’s multi-level structure, the beneficiaries of sector services, and other stakeholders will look at sector decentralization initiatives from the perspective of what they and others will gain or lose. They will try to influence the design of decentralization initiatives, support or sabotage the implementation of such reforms, and attempt to influence the overall narrative of whether sector decentralization is good or bad.

Sector decentralization as discussed here means the application of the chosen decentralization architecture in a particular sector. Sector decentralization goes beyond the general mandate of subnational governments (SNGs) and focuses on the specific sector functions and responsibilities affected by the decentralization architecture. Often, decentralization laws define whole sectors or subsectors as “devolved sectors.” In reality, specific elements or components of sectors (or indeed, very specific services) are being devolved, while other sector elements remain with the national or central level.<sup>1</sup>

Sector decentralization is closely associated with administrative decentralization which shapes the arrangements of institutions, processes, and legal mandates for discharging sector functions. It is related to fiscal decentralization as decentralized sector functions need to be adequately financed, often by means of conditional or earmarked fiscal transfers from the central government or by assigning sufficient own-source revenues to SNGs. The overall assessment of decentralization reforms—not only by policymakers, but also by the general population (and therefore by the voters)—depends heavily on the effectiveness of sector decentralization. Governments tend to promise better service delivery as the main rationale and the expected outcome of decentralization initiatives, and they need empirical evidence to substantiate such claims. The international development community also views the success or failure of decentralization reforms mostly from the

perspective of whether or not service delivery has improved. Citizens are interested in obtaining public services such as drinking water, health and education services, waste management, and transport infrastructure quickly, at reasonable costs, with good quality, and according to their needs. If improvements to service delivery do not materialize after a decentralization reform, the whole concept of decentralization will be discredited, and the reforms might be rolled back.

It is therefore critically important that governments make sector decentralization work. Yet it is exactly in this realm that decentralization initiatives often falter and even fail. Too often, local government acts or decentralization laws fail to precisely and unambiguously define the sector functions devolved to SNGs. They do not clearly differentiate sector jurisdiction between levels of administration, nor do they create the institutional and fiscal arrangements needed to facilitate the delivery of sector services by SNGs.

Sector decentralization is strongly influenced by the institutions involved (such as national ministries or departments and their subnational counterparts), their respective strengths and weaknesses, their alliances, the influence of political elites and pressure groups, the interest and strength of civil society organizations, and the influence of the users and beneficiaries of sector services. The overarching decentralization framework needs to be formulated and negotiated between various political actors. Similarly, sector decentralization and its implementation need to be formulated and negotiated among sector stakeholders on the one hand, and general decentralization stakeholders on the other.

This chapter will discuss sector decentralization from different angles. Section 4.2 will discuss the understanding and categories of sector functions. It will ask which sectors should be decentralized; how decentralization will affect processes, structures, and performances of sectors; and why the “whole of government” approach is so important in sector decentralization reforms. Section 4.3 will explore the emerging practices of intergovernmental functional assignment, including what has been called the “normative process of functional assignment” (Ferrazzi & Rohdewohld 2017). Section 4.4 will illustrate the functional assignment concept with examples from several Asian countries. Section 4.5 will look at institutional arrangements within the sector, including the potential mix of devolved and deconcentrated service providers, and the mix between public and non-public providers. Section 4.6 will discuss the links between sector decentralization and fiscal decentralization arrangements, taking up issues and arguments from Chapter 2 on fiscal decentralization. Section 4.7 will summarize findings from two recent meta studies on the empirical evidence on decentralizing health and education services. Section 4.8 will sum up pertinent issues of the debate on sector decentralization and outline some of the key challenges.

## **4.2 Sector Functions, Functional Assignment, and the Concept of “Unbundling”**

The urgency of clarifying sector functions and how they are assigned entirely or partly to different tiers of the governance system differs depending on the

modality of decentralization. In *deconcentration*, all the functions of a sector remain within the national sector administration, but the discharge of certain functions (or parts of a function) might be given to its field offices. A clear hierarchy from the national to the subnational level remains, and inconsistencies or failures in discharging the function can be resolved quickly.

Similarly, under the *delegation* modality (agency task), some functions, or parts of them, are assigned to another entity, be it an SNG, or a non-public sector entity. The delegating entity (such as the national sector ministry) remains in control of what is being discharged by the agent, and how.

Under *devolution*, sector functions or parts of functions are devolved to another level in the government system, usually with a certain degree of autonomy and discretion in how to handle the assigned function(s). In this case, sector decentralization requires mechanisms for vertical communication and coordination between levels of government, with each level having its own mandate and its own political and administrative setup. Some use the term “intergovernmental relations” in this context (see Andrews & Schroeder 2003), while others use the term “multi-level governance.” Sustaining communication and achieving coordinated action among various actors in the sector, working at different levels, is much more complex than in the other two modalities.

The term “function” or “government function” is not understood in the same manner in all countries; other terms such as “responsibility,” “authority,” “power,” “tasks,” or “spheres of jurisdiction” are also used in constitutions and legal documents (GTZ 2009). “Government functions” have been linked to concrete public services, internal government services and processes, and the regulation of individual rights and obligations (Ferrazzi & Rohdewohld 2017). It is quite common to see government functions defined along the lines of the IMF’s Classification of Functions of Government (COFOG), a “detailed classification of the functions, or socioeconomic objectives, that general government units aim to achieve through various kinds of expenditure” (IMF 2014:para. 6.1.26). Functions are here understood as broad categories of objectives and policy purposes; often, several government agencies at different levels are seen to share responsibility. The COFOG terminology is important for clustering public expenditures across levels of government, but has proved less helpful for delineating service responsibilities in the context of decentralization.<sup>2</sup>

When conducting its unbundling exercise in 2017, Nepal used the following understanding of the term “function”:

Generally, the meaning of the word “function” is commonly understood as the group of activities performed by the government, it is also understood as the “subject matter” and the major functions of the management. The functions of the management are included in the subject matter. ... The word, “function” covers “sector” as one aspect and also covers chunk of the sector. For instance, water sector can be classified as sector (water resource), sub-sector (irrigation), field level (small irrigation).

(GON 2017:7)

Linking the term “function” to public services is probably the most suitable approach for sector decentralization efforts, even when acknowledging that the value chain of a certain public service might require the involvement of different levels of government and of different actors (or suppliers) who need to work together to ensure that the service is delivered and reaches its ultimate beneficiary.<sup>3</sup>

When discussing the functions of SNGs, it is worthwhile to distinguish between two models of functional assignment: (i) the list model, and (ii) the general competence or “general mandate” model (Ferrazzi & Rohdewohld 2017).<sup>4</sup> Under the list model, a defined list of functions is assigned to each level of government; the government must not go beyond its prescribed list or it is deemed to be *ultra vires*. The general competence model indicates only a few general objectives for the subnational level and perhaps sets some boundaries. One example for the general competence model is the 2001 Law on the Administrative Management of Communes/Sangkats (LAMC). According to Article 41 of the LAMC, the CS councils are meant “to serve local affairs for the interests of Commune/Sangkat and of citizens.” This very wide formulation is further specified in subsequent legislation<sup>5</sup> to include maintaining security and public order, managing necessary public services, encouraging contentment and wellbeing of the citizens, promoting social and economic development, protecting and preserving the environment and natural resources, reconciling people’s concepts for the sake of mutual understanding and tolerance, and performing general affairs to respond to people’s needs. Still, it is not clear from these legal instruments what kind of action the CS councils can or should take on these issues, and how they need to interact with other levels of government. A rather weak example of a general mandate can be found in the 2019 Local Government Act of the Province of the Punjab (Pakistan): Section 5 of the act states that “every local government shall have the authority to run the affairs of respective local area without improper interference.” This includes

- (i) to involve all residents in running its affairs and from time to time consult them on the level, quality, range, and impact of services; (ii) to provide services in a financially and environmentally sustainable manner; (iii) to give equitable access to services; and (iv) to promote and undertake development in the respective local area.

While Section 5 looks promising at first sight, the more detailed and closed listing of local government functions in the act’s schedules, and the various limitations and directives which the provincial government can impose on local governments, clearly illustrate the limited degree of autonomy and local discretion which render moot the notion of a general mandate.

Sector decentralization is mainly concerned with the list model, because such lists spell out which sector functions or services are to be provided by SNGs. There is no universal standard or template to determine which sector functions are conducive to devolution. The theoretical literature on decentralization suggests that

a sector is a prime candidate for decentralization if:

- local demands for a service differ across localities;
- there are no substantial economies of scale associated with the service;
- there are no substantial spillovers of costs or benefits from the service;
- the service is amenable to at least partial local financing through taxes or charges;
- local governments have the capacity to deliver the service;
- the service is not meant to provide substantial redistribution of income or wealth.

(Andrews and Schroeder 2003:30)

Sometimes, the legal instruments are not very specific in describing sector functions or services to be devolved. For instance, the initial decentralization law of Indonesia (in 1999) mentioned whole sectors such as public works, health, education and culture, agriculture, communications, industry and trade, investment, living environment, land affairs, cooperatives, and labor when identifying what the law had called “obligatory functions” for the district level.<sup>6</sup> Such an arrangement is too vague to be workable; devolved functions need to be described in a much more specific manner. The Third Schedule of the 2019 Local Government Act of Punjab includes the following devolved sector functions of urban local governments: economic and value chain development; the management of primary, elementary, and secondary education facilities; preventive health and hygiene; solid waste collection and disposal; city roads and traffic management; public transport; drinking water supply; environmental health, awareness, and services; and others. Again, these are rather broad formulations, which need to be defined in more detail. The now defunct 1999 decentralization law in Thailand also assigned a comprehensive list of functions to the levels below the provincial level, including establishing local self-development plans; providing and maintaining land routes, water routes, and water drainage; supporting commerce and investment; and promoting tourism.

In 2013, the global association of local and regional governments (United Cities and Local Governments/UCLG) clustered the main local government functions as follows (see Figure 4.1).

- *Services* such as water distribution; waste water and solid waste collection; public transport; street lights; cleaning of streets, markets, and public places; public toilets; pollution control; public/environmental health; some aspects of child care and schooling; libraries and cultural activities; some forms of social welfare provision (usually shared with higher authorities); fire services and disaster response (usually shared with higher authorities); registration of births and deaths; monitoring for infectious diseases; cemeteries; and, in many countries, health, education, housing, and policing.
- *Provision of infrastructure* such as water piped distribution; sanitation; storm and surface drainage; local roads, paths, and bridges; solid waste disposal

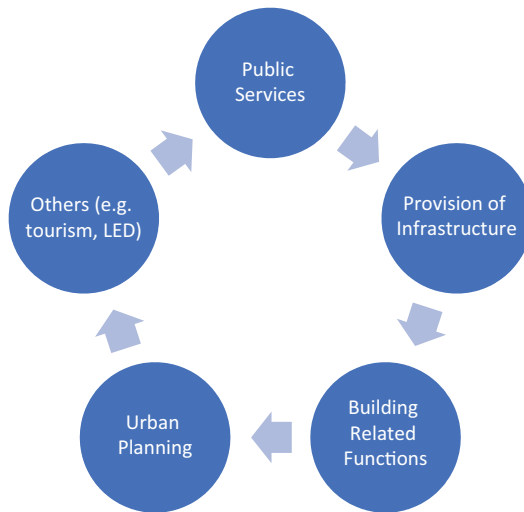


Figure 4.1 Typical Subnational Government Functions.

Source: Author's illustration.

facilities; waste water treatment; bus terminals; and parks, squares, sports facilities, and public spaces.

- *Building related functions* such as building regulation, maintenance of public buildings, and regulations for rental accommodation.
- *Urban planning* including land-use management, the application of land-use regulations, and plans for infrastructure expansion.
- *Others* such as local economic development and tourism (UCLG 2013:14).

There is no typical or standard pattern by which sector functions are devolved. The manner of devolution depends on the specific country context, the character and nature of the functions considered, and the specific objectives of a decentralization reform. As noted by Andrews and Schroeder (2003:30): “sectoral decentralisation policies should review the nature of the service and the situation of local governments to determine if conditions are conducive for decentralization.”

### 4.3 The Concept of Functional Assignment

The emerging practices of functional assignment (see GTZ 2009; Ferrazzi & Rohdewohld 2017) provide a framework for addressing questions about which functions, or parts of functions, should be decentralized. While the concept is most relevant for devolution, it may also be beneficial for the other two modalities. The important key elements of the functional assignment concept include: (i) the typology of functions, (ii) the use of principles and criteria in the decision-making process of assigning a function, (iii) a sequence of suggested steps for a



functional assignment process, and (iv) the horizontal and vertical unbundling of functions.

(i) *Typology of functions*

Functions have been categorized as “obligatory” or “mandatory” (i.e., functions which SNG must implement) or as “optional” or “discretionary” (i.e., functions where each SNG has the discretion to decide whether to discharge that function). In Cambodia, the term “permissive function” reflects the same idea. Other important categories of functions are “exclusive functions” where only one level of government has jurisdiction, “shared” or “concurrent” functions over which two or more levels of government have jurisdiction, and “residual functions” that are not explicitly mentioned in the legal framework but are *a priori* and *en bloc* assigned to a specific level of government. For example, the Constitution of Nepal 2015 assigns such residual functions to the federal level.

Obligatory functions often come into play where a nation-state has a commitment to citizens to provide basic services such as water, health, and education—often guided by international conventions or pledges. SNGs are expected to play their part in meeting such a commitment. In the context of devolution, there should be some flexibility on *how* to provide such services but no flexibility on *whether or not* to engage in them. Sometimes, obligatory functions also come with minimum service standards as a means to ensure equality in service provision. Obligatory functions have priority when it comes to determining the budget allocations of SNGs. They have also been associated with localizing Sustainable Development Goals (SDGs) agendas where obligatory functions can play a significant role for achieving national SDG priorities.<sup>7</sup>

Discretionary functions are often local in character. They may support local identification in such areas as culture and arts, or serve a purpose in economic sectors where the local context can differ substantially. The extent to which SNGs can take up discretionary functions depends on the availability of resources and on the willingness, political maturity, and capacity of the local decision-makers to engage in such functions with little or no guidance from higher levels of government.<sup>8</sup>

There is no common usage of functional categories in the legal frameworks for SNGs. The trendsetter for decentralization in Asia, the Philippines Local Government Code of 1991, did not mention such dimensions. Indonesia has used the distinction between obligatory and discretionary functions since the first decentralization law was passed in 1999. Likewise, Cambodia’s 2008 Organic Law on the provincial, district, and municipal administration distinguishes between obligatory and permissive functions. Pakistan’s provincial local government acts passed after the 2010 constitutional amendment have never clarified whether the functions devolved to the different tiers of the local system are of an obligatory or optional nature.<sup>9</sup> The same applies to the local government reforms in India following the 1992/1993 constitutional amendments. Nepal’s new constitution of 2015 and the subsequent 2017 Local Governance Act do not include the notion of “obligatory” or “discretionary” functions. Neither does Mongolia’s ongoing decentralization reform and functional reallocation process.



*(ii) Criteria and principles for devolving functions*

The literature on decentralization and fiscal federalism mentions criteria that can be applied when considering whether a certain function should be assigned to a subnational level. The most common one is the principle of subsidiarity, which argues that the function in question should be undertaken by the lowest jurisdiction that can do so effectively and efficiently. The *2009 UN Guidelines on Decentralization and Strengthening of Local Authorities* (UN 2009) are based on this principle. Other criteria are effectiveness and efficiency, heterogeneity of demand, economies of scale, and externalities (also called “spillover effects”) of a function.<sup>10</sup> Often, the existing or potential capacity of the level of government receiving a function is considered as well.<sup>11</sup>

In some cases, existing laws on local government mention specific criteria. For example, Article 220 of Cambodia’s 2008 Organic Law sets out the following principles to be applied in a functional review: (i) relevance to the jurisdiction of the council; (ii) manageability and practicality within the council’s jurisdiction; (iii) benefits and usefulness for residents within the council’s jurisdiction; and (iv) major impact within the council’s jurisdiction. The preamble of the 2013 Local Government Act of Khyber Pakhtunkhwa (Pakistan) highlights the “expeditious disposal of [government] business to meet the convenience and requirements of the public” as the main consideration for decentralization. In Mongolia, the process of “functional reallocation” is based on five guiding principles: (i) subsidiarity; (ii) “disentanglement” (defined as “strict separation of powers between the different state levels”); (iii) “finance follows functions;” (iv) stakeholder involvement; and (v) the use of “relevant theories, studies, analysis and international good practice.”<sup>12</sup>

The unbundling exercise in Nepal was based on a wide range of criteria and principles, including efficiency and subsidiarity, economies of scale, externalities, equity and inclusion, overall economic stability, national interests and goals, and accountability and capacity (GON 2017:10ff).

The intention of applying such criteria is to bring a certain degree of rationality to an otherwise essentially political process. The criteria are not always clear-cut, nor do they lend themselves to a scientific process of decision-making with only one correct solution. In the words of Dafflon (2006): “the problem of (re) assigning functions between government levels and between government units at the same level are not in the nature of things capable of ultimate, once-and-for-all prescriptions” (Dafflon 2006:299). There are also trade-offs between the criteria—one principle might favor allocating a function to a higher level of government, while another might tend to allocate the function to a lower level. In the context of sector decentralization, applying a set of criteria in the decision-making process will make the emerging result more transparent and verifiable; it will also furnish decision-makers with arguments for public discourse on the planned changes. Using criteria addresses the need to review the nature of the service and the situation of local governments, and leads to sector and function-specific solutions within the overall decentralization architecture.

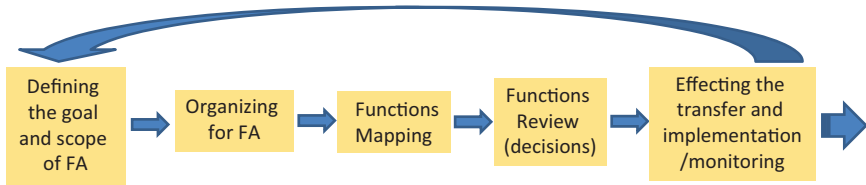


Figure 4.2 The Normative Process of Functional Assignment.

Source: Ferrazzi and Rohdewohld 2015.

*(iii) The normative process of functional assignment*

Dafflon (2006) concluded his examination of functional assignment by saying that “In short, it is a model of procedures and choices, not of outcomes” (Dafflon 2006:300), since the variation of political, economic, social, and historical context factors between countries rules out the option for a “best” policy. The “normative process” of functional assignment suggested here (see Figure 4.2.) consists of five main steps: (i) defining the goal and scope of the process; (ii) organizing the process; (iii) mapping the existing assignment of functions; (iv) reviewing the existing assignment and deciding on the reassignment of functions; and (v) putting the assignment decisions into effect (Ferrazzi & Rohdewohld 2015; Ferrazzi & Rohdewohld 2017). This rather generic configuration of the process needs to be adapted to the specific national context, purpose, and conditions. In a way, it embodies the “comprehensive model of negotiation” which Dafflon (2006) had proposed.

These five steps are briefly described as follows:<sup>13</sup>

- The *first step* (defining goal and scope) is to outline the scope of the process (such as the number of sectors or subsectors to be reviewed), the sequencing or phasing of the process, the modalities of decentralization to be applied, the sector and non-sector stakeholders to be involved, and the criteria to be used. At this stage there should also be clarity how the term “function” is (or should be) understood in the political and administrative system.
- Once the key parameters for the functional assignment process have been determined, the *second step* is to define the institutional framework and ensure the availability of financial, technical, and administrative resources. As decentralization is a whole of government reform, an intergovernmental and inter-ministerial coordination body should steer and oversee the process. In Cambodia, the National Committee for Sub-National Democratic Development (NCDD) has assumed this role. It provides guidelines and manuals for the functional assignment process and, based on work agreements with the prioritized line ministries, provides them with the financial and technical resources to conduct the functional assignment process. In Mongolia, the cabinet secretariat is leading the implementation of the

country's decentralization policy. It has established a Decentralization Support Unit, which works with sector ministries and provides support to technical working groups (TWGs) in the sectors. In other countries, such as Pakistan and India, cabinet committees at the provincial or state level have been given coordinating tasks. In Nepal, the inter-ministerial Federalism Implementation and Administration Restructuring Coordination Committee was leading the functional assignment process.

Finance, planning, civil service, and the ministry in charge of the decentralization reform must be part of the functional assignment process as the respective sector ministries play a leading role.<sup>14</sup> An important consideration is the involvement of external, nongovernmental stakeholders such as academia, professional associations, or civil society organizations working in sectors or sector services.

- The *third step* is to analyze the status quo and map the existing allocation of functions. This includes identifying the legal sources of functions (such as the constitution, laws, and lesser legal instruments) and the financial, human, and physical resources associated with them. This step is crucial for obtaining a comprehensive understanding of how service delivery is organized across levels of government. It can shed light on existing discrepancies between the legal functional assignment, and the actual discharge of functions. A key methodology is what is termed the “vertical and horizontal unbundling” of a sector (see below).
- In the *fourth step* (functions review), sector institutions propose a new allocation of functions, considering the country's overall decentralization policy framework and the principles and criteria discussed in earlier steps. This proposal is reviewed by the relevant authority, such as the inter-ministerial coordination body, which decides whether to allocate sector functions to another level of government and how to operationalize decentralization in the sector. While the mapping phase is likely to be more technical and factual, the review phase is likely to be politically charged because hard decisions have to be taken and the process may still be stalled at the political level. This was the case in the education sector of Cambodia, where a 2016 sub-decree devolving early childhood education, primary education, and non-formal education to the district and municipal levels was stopped by the then minister of education.<sup>15</sup> Similarly, in Khyber Pakhtunkhwa, Pakistan, proposals for significant devolution of sector functions in primary and secondary education were endorsed by senior and technical officials of the department but never operationalized by the political leadership (Ferrazzi & Rohdewohld 2017:193ff).
- The final and *fifth step* of the normative process is to put the decisions into practice. This involves actions by the sector institution(s) concerned, by other government agencies (for instance, those dealing with civil service rules or public procurement processes), and by the SNG receiving new functions. Such actions might include changes in the legal framework, institutional changes (such as the number and internal setup of agencies), transfers of assets, establishment of new or revised oversight and reporting

systems, and quite often interventions to build up the required technical and managerial capacities at the subnational level. This is the phase where the nuts and bolts of public administration—such as the plethora of existing (and sometimes long-established) administrative processes, relationships, procedures, and guidelines—need to be addressed.<sup>16</sup> The operationalization of a new functional assignment is akin to a change management process for the national and subnational sector institutions, and requires the close attention of the institutional and political leadership of the sector concerned.

#### **BOX 4.1 FUNCTIONAL ASSIGNMENT AND GENDER**

Like DLG reforms in general, the functional assignment process requires a good understanding of the political economy of the reforms, and of whether the arrangements and decisions made in each step have the same effects on men and women. For example, a gender analysis in Step 2 (organizing for functional assignment) could identify whether women's organizations should be involved in the coordination body, and to what extent the decision-makers include women. The status quo analysis in Step 3 (functions mapping) could add data on how services currently reach women, whether the legal framework is designed in a gender-responsive manner, and whether the current budget allocation yields different levels of benefits to men and women. Step 5 (effecting the transfer and implementation/monitoring) could have gender elements, where alongside administrative re-organization resulting from functional (re)assignment, measures are put in place to increase the representation of women at more senior levels of the organizations. Requisite capacity building interventions for new roles would include gender as one of the topics.

Source: Author. See also ADB 2012 for more details on assessing the gender responsiveness of an institution or organization.

#### *(iv) The concept of unbundling*

The concept of unbundling helps to illustrate the interrelationships of service delivery functions within a multi-level governance system. It also helps to show that, even after decentralization, the higher level(s) of government will retain important roles and responsibilities for the decentralized functions.

Andrews and Schroeder (2003) noted in their analysis of decentralizing primary health care that, in most cases, these “efforts to decentralise have seldom involved wholesale devolution of all these components” (p.31). The concept of unbundling takes into account that sectors usually can be divided into subsectors and related clusters of functions. For instance, the education sector can be divided into subsectors such as primary education, secondary education, tertiary education, non-formal education, special education, technical and vocational education, and preschool education. Primary education can further be divided into sector planning; the provision of physical infrastructure and basic school facilities; the provision of equipment, furniture, school libraries, laboratories,

and IT equipment; curriculum development; teacher training; and so on.<sup>17</sup> This is called “vertical unbundling.” The World Health Organization (WHO) has divided the health sector into six components: (i) leadership and governance; (ii) infrastructure, equipment, and medical products; (iii) health work force; (iv) health financing; (v) health information; and (iv) service delivery (WHO 2008). In Mongolia, the environment sector was divided into 14 clusters of functions, including green development policy planning, weather and environmental monitoring, forest policy and regulation, water policy and coordination, and land protection policy and coordination (DPSP 2017).

Vertical unbundling can be included in the first step of the normative process of functional assignment (defining the goal and scope) as a decision needs to be taken on whether to look at the whole sector as a candidate for decentralization, or at sub-components only.

“Horizontal unbundling” looks at management tasks for each of the identified sector functions, such as policy, planning, setting norms and standards, implementation, monitoring and evaluation, and oversight. For instance, if waste water management has been identified as one of the functions in the water and sanitation sector, such management tasks can sit at different tiers of the administrative system. The policy task is normally with higher levels of administration, as is setting norms and standards, and oversight. Other tasks, like implementation or planning, can be undertaken by lower subnational levels (see Rohdewohld 2019).

Determining where to position a certain sector role in a multi-level governance system—both before and after decentralization—will help to reduce ambiguities and uncertainties, ease the interaction between the levels, and possibly increase the effectiveness of accountability measures as the loci of responsibilities is much clearer. It will also “allow a much better assessment of the human, financial, and technical resources, and capacities required at each level of the multilevel governance system” (Rohdewohld 2019:10).

For sector decentralization to be effective, a clear and unambiguous delineation of sector functions, mandates, and responsibilities is a must. It provides the basis for subsequent decisions on financial and human resources, the required institutional arrangements, and the re-engineering processes needed for communication, interaction, and cooperation in the sector. There is also an option to employ asymmetric or differential decentralization, where SNGs at the same level are given a different set of functions depending on their capacities and other considerations.

#### **4.4 Functional Assignment in Asia and the Pacific**

In Asia and the Pacific, a more structured approach for determining the assignment of sector functions between levels of government emerged first with Indonesia’s “Big Bang” decentralization in 1999–2000, and then with Cambodia’s decentralization and local governance (DLG) reforms starting in 2001. What has become known as the “normative process of functional assignment” is based significantly on the Cambodian approach and was developed after Cambodia

passed the 2008 Organic Law with a mandate to conduct an functional assignment process for those sector functions which should be devolved to the provincial, district, and municipal administrations.

Over the last decade, Cambodia, Indonesia, Mongolia, Nepal, and Pakistan have made efforts to establish a more structured approach to sectoral functional assignment. Some of these have been concluded (Indonesia, Nepal), some are still ongoing (Cambodia, Mongolia), and some have been aborted without tangible results (Pakistan).

In **Cambodia**, the functional assignment process<sup>18</sup> started after the enactment of the 2008 Organic Law on provincial, district, and municipal administration. Working groups were set up in the sector ministry, and in 2012 a sub-decree on the general processes for transferring was adopted. Manuals and technical guidelines were provided to ensure that the transfer of functions and resources would be implemented in a systematic manner. The interdepartmental body leading the exercise (the NCDD) also entered into financial contracts with the sector ministries involved (including the Ministries of Education, Youth and Sport; Health; Rural Development; Agriculture, Forestry and Fisheries; Social Affairs, Veterans, and Youth). Despite intense effort and a considerable technical process, the political will to transfer functions was lacking. In early 2017, agreements in the education sector were stopped at the last minute by the political leadership of the sector, and the whole exercise came to a standstill. The NCDD needed considerable time to overcome the ensuing deadlock. It was only in late 2019 that several sub-decrees were promulgated which devolved a substantial range of sector functions to the provincial, district, and municipal administrations.

**Indonesia** has passed through several rounds of functional assignment exercises.<sup>19</sup> Following the passage of the 1999 decentralization law, which ostensibly devolved whole sectors to the district level, a government regulation was passed in 2000 which detailed the provincial and district functions. However, the government was not able to sufficiently harmonize sectoral laws with the basic decentralization law.

The revised decentralization law, passed in 2004, provided more clarity on obligatory functions and formally introduced the category of discretionary functions. Key criteria for allocating functions (such as externalities, accountability, and efficiency) were determined by the law, keeping in mind a harmonious relationship between the government levels. Again, a government regulation was used to clarify the district functions in detail. However, the lack of legal harmonization continued as the central government maintained substantial expenditure responsibilities in areas which legally had already been devolved. The latest revision of the decentralization law in 2014 regulated the functions of provinces and districts directly in the main body of the law.

**Mongolia**<sup>20</sup> has engaged in a process of decentralization following the endorsement of its State Policy on Decentralization in 2016. Led by the cabinet secretariat, with support from the Swiss Agency for Development and Cooperation (SDC), a methodology for functional reallocation was designed

and pilot-tested in 2017 in the environment and tourism sector; it was then redesigned in line with the lessons learned. In January 2018, the government issued a resolution approving the functional relocation methodology.<sup>21</sup> The resolution covers, among others, the applicability of the methodology and definitions of key terms, guiding principles for functional reallocation, stipulations for preparing and organizing the functional reallocation process, details on the functional review and a classification of functions, and working tools for the process. There are also institutional arrangements, such as working groups in each sector, and a coordinating consultative group under the cabinet secretariat. Proposals for legal amendments will pass from the cabinet secretariat to the cabinet and ultimately to the national Parliament. In January 2019, an Activity Plan for the Implementation of Methodology for Functional Reallocation envisaged that functional reviews would be conducted in all the sectors until the end of the year.

The province of **Khyber Pakhtunkhwa (KP)** in Pakistan has made two efforts toward functional assignment:<sup>22</sup>

- (i) After the enactment of the 2013 Local Government Act (LGA), functional assignment exercises were conducted in the primary and secondary education subsectors, and in the health sector. In both cases, sector officials (including officials with roles in finance, planning, and budgeting, and officials from field offices) worked on unbundling exercises and identified functions which could be transferred to the district level. For education, the results of the workshops were then used to analyze the budget and HR implications of a revised functional arrangement. However, the results of the exercise did not become part of the legal framework listing the functions of the district level. In the health sector, the results remained inconclusive as the department's support to the exercise fizzled out over time.
- (ii) Following the significant amendment of the province's LGA in 2019, the Local Government Department facilitated functional assignment workshops with seven sector departments in late 2019. These workshops resulted in tentative agreements on functions to be devolved to the *tehsil* (subdistrict) level and gathered initial recommendations regarding staffing and assets. The results are still pending for final endorsement; the intention was to include them in the forthcoming Rules of Business for the *tehsil* local governments.

**Nepal**<sup>23</sup> adopted the concept of functional assignment—in the Nepali context called “Functional Analysis and Division of Responsibility” (GON 2017:7)—when a large delegation of government officials and development partner representatives attended a regional workshop in Manila.<sup>24</sup> The unbundling exercise conducted in 2016–2017 focused on the exclusive and concurrent rights given to the federation, the states, and the local level according to the new 2015 Constitution of Nepal. Five thematic working groups were established clustered around social issues, economic issues, infrastructure issues, security and governing arrangement/governance management issues, and constitutional bodies/Parliament/law/other issues.



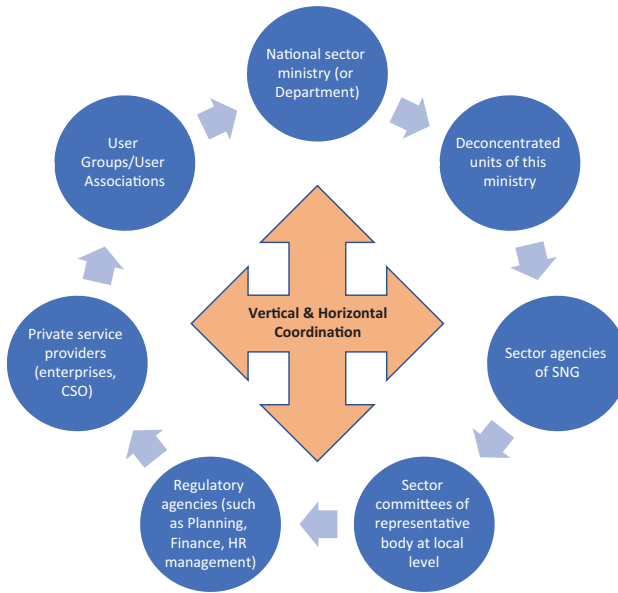
These working groups included senior officials of the related sector ministries or other relevant institutions. Their tasks included the analysis of existing data and information, identification of the activities to be performed by each level according to the exclusive and concurrent right list, preparation of drafts of the organizational structure required at each level, assessment of the required human resources, the design of an action plan for implementation, and the facilitation of consultations with relevant stakeholders.<sup>25</sup> For the local level, the results of the exercise were used to define local government responsibilities in the 2017 Local Governance Act. The ongoing transformation of the institutional and civil service structure in Nepal needs to provide the required capacity to local governments to discharge the identified responsibilities. However, unless sector legislation is aligned with the overall multi-level governance structure, confusion about sector mandates and inadequate flows of sector resources will lead to efficiency losses and sub-optimal institutional arrangements for service delivery. Functional working mechanisms between deconcentrated sector units and devolved sector units at the subnational level are still required to make service delivery at subnational level effective.

#### 4.5 Institutional Arrangements in a Decentralized Sector

Depending on the modality of decentralization, the institutional arrangements of a decentralized sector could include the following (see Figure 4.3):

- At the national level, a sector or line ministry is in charge of overall sector policies, strategies, and norms and standards. There may be specialized and more technical bodies under the ministry that deal with specific issues and, on these issues, have jurisdiction for the whole country.<sup>26</sup>
- There might be deconcentrated sector units at the subnational level responsible for implementing national functions within their territorial jurisdiction.<sup>27</sup>
- Under the devolution modality, sector agencies of the SNGs may be in charge of implementing the devolved sector functions. In this role, they would be accountable to the political representative body at their respective level and—in terms of compliance with sector policies, norms, and standards—to the national sector administration either directly at the national level, or via the deconcentrated offices of the line ministries.<sup>28</sup>
- In addition to such institutional arrangements in the sector, other core ministries (sometimes called “regulatory ministries”) such as finance, planning, interior/home, and civil service will have their national and subnational agencies; under the devolution modality the SNGs might have similar agencies.
- Often, representative bodies<sup>29</sup> at different levels have technical or sector committees that deal with sector policies and legal frameworks and interact with citizens and sector service providers. Such committees can help strengthen social accountability in the sector as a bridge between the political and administrative setup on the one hand, and users, citizens, and civil society on the other.





*Figure 4.3* Vertical and Horizontal Coordination in a Sector.

Source: Author.

It is obvious that coordination and cooperation within the sector is an important issue. The need for coordination is both vertical and horizontal; vertical coordination is required between the different government levels (including control and oversight, information and monitoring), and horizontal coordination is required between SNG agencies and—where they exist—deconcentrated agencies at the same level.

Vertical coordination between government levels becomes

more complicated in the case of shared rather than exclusive responsibilities. It requires a supervisory and monitoring role by central government ... that has to be supported by a continuous two-way exchange of information between national and sub-national levels of government. Systematic collection, analysis and reporting of information are essential for central government to verify compliance with policy goals, analyse alternative outcomes and guide future decisions.

(DeLoG 2014:80)

But even with exclusive functions assigned to the subnational level, monitoring of compliance with legal and technical norms is required. The role of field offices (or “deconcentrated offices”) of line ministries is pertinent, both in supervising and monitoring local government units and in providing capacity development support (*ibid.*).

Horizontal coordination can have two meanings: firstly, coordination between different sector agencies at the same government level and within the jurisdiction of the SNG. Secondly, and depending on service arrangements chosen, there could also be horizontal cooperation between different SNGs at the same level. These could involve, for example, spatial planning, infrastructure development, or joint delivery of services. If the specific character of a function includes economies of scale and/or spillover effects, it might make sense for two or more SNGs to cooperate in the delivery of services such as water supply, waste management, special school education, public transport, or tertiary health services. Inter-municipal cooperation (for example, by means of special purpose associations) is an established approach to maintain the subnational character of service delivery where the individual capacity of an SNG is too weak, or where the parameters of the particular service argue for shifting it to a higher level.<sup>30</sup> The 2019 local government legislation in Punjab, Pakistan created the option to establish joint authorities between different local governments, or between local governments and the provincial government, for the provision of one or more public services assigned to them.

In addition to public institutions, sector decentralization could also involve non-public sector entities such as commercial business or not-for-profit civil society organizations. There is a distinction between the *provision of services* (i.e., the responsibility to ensure that the services are made available) and the *production of services*.<sup>31</sup> Under devolution, an SNG might become responsible for *providing* a certain service but may decide to outsource the *production* of this service to another entity, such as a private firm. This would create another set of principal-agent relationships at this level. In principle, the involvement of non-public actors does not necessarily interfere with the general decentralization architecture; it does, however, create another layer of relationships and interactions.

User groups are another important aspect of the institutional landscape of a sector. Such groups may include farmers' groups in agricultural extension, water user associations, or parent-teacher committees in the education sector. They are often created by governments and international development partners in order to strengthen accountability of public service providers, increase the quality of services by giving voice to users and beneficiaries, and in some cases garner financial and non-monetary contributions.

In principle, user groups can play an important role in all three decentralization modalities, especially where the improvement of public services and participation of users (or communities) are critical considerations. In the context of political decentralization and devolution, they are sometimes wrongly seen to compete with the formal representative bodies established at the local level, at least in their respective sector. Singh (2014) has described the challenges of linking rural water and sanitation programs in India to improve service delivery with "institutional and political transformation to build devolutionary and democratic local governments" (p.24). Similarly, Tidemand (2010) has pointed to the risk of confused lines of accountability and uncoordinated arrangements for service delivery in the health sector when—in addition to elected councils—user groups

(such as health committees) are given a strong role in determining health services and promoting accountability of service providers (Tidemand 2010:19f). However, such a competitive constellation is not inevitable. At the lowest level of local government systems, such as the village or ward level, institutional linkages between representative bodies and sector-based user groups can often be established easily to maximize the comparative advantages of both.

#### **4.6 Linking Sector Functions and Fiscal Arrangements**

The mantra of “funds follow functions” is frequently brought up in discussions about decentralization and related reform initiatives. The overall framework of fiscal decentralization as described in Chapter 2 needs to consider the issue of decentralized sector functions in accordance with the modality being applied. As indicated earlier, in the case of deconcentration, the funds continue to come out of the national sector budget allocation; whether and how field offices of line ministries can disburse funds are issues to be negotiated between the sector ministry and the finance ministry. The same applies in the case of delegation, where the obligation to provide the required funding usually remains with the delegating entity. For instance, if a national sector ministry delegates functions to an SNG, it still requires a corresponding allocation in its national budget. In addition, there must be rules and procedures in place for how funds flow from the sector ministry to the SNG, how the SNG manages the funds received, and what kind of financial reporting, auditing, and accountability procedures apply.

In the case of devolution, the range of options are much wider. SNG funds for devolved sector functions could come from (i) the SNG’s own-source revenues such as local taxes or service fees and charges; (ii) general block grants transferred by the national level to the SNG which can be used by the SNG according to its own priorities; (iii) conditional or earmarked grants which can be used only for the specified purpose; and (iv) borrowing. Sometimes performance-based grants are used to transmit incentives to SNGs; they can come either as multi-sectoral unconditional grants or as sector-specific conditional grants (see Chapter 2 on fiscal decentralization).

When functional assignment issues are under discussion, it is sometimes argued that a particular responsibility cannot be entrusted to the local level because that level does not have adequate fiscal resources. This is a common misconception. The local revenue capacity of SNGs should not be a factor in determining whether or not to assign functions to them because this turns the logic of public finance (i.e., “finance follows functions”) around. If a central government believes, for reasons of efficiency, responsiveness, and local accountability, that it is appropriate to assign a function to the SNG, then the central government must ensure that some form of financing, such as local revenues or transfers, is put into place (Dafflon 2006:289).

The main purpose of devolution is to give SNGs discretion and a degree of autonomy to determine the composition, quantity, and quality of their services. Still, SNGs remain part of the fabric of the nation-state, and national policies, objectives, strategies, and priorities need to be considered at the subnational level as well. Using the category of “obligatory functions” can be a way to ensure that

SNGs focus on particular functions and services even after devolution. Using such typology in the legal framework for SNGs, perhaps in combination with minimum service standards, is a powerful signal for decision-makers at the subnational level. Earmarking fiscal transfers for particular functions and services such as primary health care, vaccination, and education is another way to direct the behavior of SNGs; they receive funds but can spend them only for the prescribed functions. In this case, a trade-off needs to be made between the importance and significance of national policies, and the need to maintain a degree of discretion and autonomy at the subnational level. If there is no discretion at all, decentralization will look more like a delegation of functions than devolution.

The accurate costing of functions often remains an unresolved issue. Seldom has there been a comprehensive approach to quantify in detail the cost of devolved functions, and to use the result in the calculation of fiscal transfers. In most cases, states use a historical approach; they start from how much money a sector ministry has spent on a particular function before devolution, and then share this amount among the SNGs to which the function has been devolved. If the fund allocation before devolution has been insufficient, it will probably remain insufficient after devolution, and it will be difficult for SNGs to show an improvement in services. In the context of the functions mapping process, the existing budget allocation should be documented and assessed to guide the functional assignment process. In Cambodia and Mongolia, this has resulted in consolidated financial calculations of functions considered for reassignment.<sup>32</sup>

The Organisation for Economic Co-operation and Development (OECD) countries have sometimes calculated unit costs of services, such as the cost of issuing a driving license, financing four or six years of primary education, or treating certain medical conditions. Where services are being purchased from the private sector, unit costs should be available as the basis to calculate the overall budget requirements.

Indonesia has attempted modeling and financial calculations for devolved education and health functions and their attached minimum service standards,<sup>33</sup> but there has been no visible effect on the fiscal transfer system. More recently, Kenya has done a major costs analysis of government functions in the context of its decentralization drive (Transition Authority & Commission on Revenue Allocation 2015).

#### **4.7 Does Sector Decentralization Deliver? Some Empirical Findings**

The Introduction and Chapter 5 draw attention to the methodological and empirical challenges for evaluating the effects of decentralization reforms in a causal and methodological sound manner, and refer to several empirical studies assessing the success or failure of such reforms. Channa and Faguet (2016) observed that “the lack of consensus on decentralization’s effects over 25 years and literally hundreds of studies is striking” (p.200). The topic of measuring and evaluating the effects and outcomes of decentralization reforms is taken up

in more detail and depth in Chapter 5. Here, we will only look at some of the empirical evidence which has been presented in the literature.

For this, we will concentrate on two social service sectors: health and education. These sectors (and especially subsectors such as primary health care, primary education, and secondary education) have been prime candidates for decentralization in many countries because they meet some of the push factors mentioned earlier (see Andrews & Schroeder 2003). For example, local demands for services such as health services can differ across localities. Economies of scale associated with the service are not substantial, externalities or spillovers of costs or benefits from the service are rather limited, and there is an opportunity for at least partial local financing of the service through taxes or charges. Another push factor arises from the political economy side of decentralization reforms; education and health services are needed by a large majority of the population, making them crucial for political actors who use decentralization as a political instrument (“bringing government closer to the people”). Therefore, it does not come as a surprise that Channa and Faguet (2016) conclude that decentralization “is probably the single most advocated measure for improving the provision of health and education in the developing world” (p.201).

But just as often, the evidence is mixed, not always conclusive, and sometimes contradictory. Two relatively recent meta studies have distilled findings and observations from a large number of sector studies in order to find out whether decentralization reforms had the intended (and positive) effects they were meant to achieve. Munoz et al. (2017) reviewed 54 quantitative and mixed method studies on health decentralization from 26 countries; Channa and Faguet (2016) reviewed 35 selected quantitative studies from 18 countries (including six cross-country studies) focusing on “preference matching” and “technical efficiency” of decentralized health and education services.<sup>34</sup>

*(i) Empirical evidence on health decentralization*

The review by Munoz et al. concludes that

lessons learned from LMICs [low and medium-income countries] suggest that factors such as adequate mix of technical skills at the local level to perform decentralized tasks, effective decentralization of decision-making to the periphery, and political leadership are key factors for a successful decentralization.

(Munoz et al. 2017:219)

Another key finding was that local governments

that assumed financing responsibilities of the health system, identified unused local resources, created local institutions to pool funds from different sources, or created new taxes earmarked to health. They not only increased the resources for health, but also improved equity.

(ibid.:226)

The review brought up a rather nuanced assessment of the effects of health decentralization because the analysis of the 54 studies differentiated between the six building blocks the above-mentioned WHO model for structuring the health sector<sup>35</sup> and tried to distill the effects on each of these building blocks. Thus, the reviewers established that:

- (i) Most health decentralization reforms did not cover all six building blocks equally but focused mainly on service delivery (Munoz et al. 2017:221), again underlining the need for a comprehensive, holistic approach.
- (ii) The perception of stakeholders involved (=qualitative assessments) was often less positive than what quantitative indicators would show (ibid.:222), underlining the need for effective M&E systems and good communication and awareness-creating interventions as part of decentralization reforms.
- (iii) Regarding governance, increased community participation and better localized planning processes with stakeholder involvement were mentioned as positive effects, while interference by local authorities and coordination problems were among the negative effects (ibid.:223).
- (iv) Many of the reviewed studies reported improved levels of service delivery after decentralization, but there were also studies indicating negative effects such as lower utilization of health facilities and low performance levels of local health staff (ibid.:225).<sup>36</sup>
- (v) The analysis of the 54 studies did not reveal any clear association between specific effects and typologies of decentralization, including privatization (ibid.:226). In other words, there was no evidence that deconcentration, for instance, would yield better results than devolution (or vice versa).
- (vi) Comparatively weak performance of health decentralization reforms was seen in HR management, the availability of medicines and medical equipment, increased bureaucracy, and lack of management skills at the local level (ibid.:226).

The detailed and differentiated analysis of the studies again confirms that “context matters,” and highlights the multifaceted challenges of assessing the effects and impacts of decentralization in a methodologically sound manner. As the authors admit: “Health systems interventions are affected by numerous contextual factors and their effects are the result of the dynamic interaction of multiple subsystems” (ibid.:226). Decentralization is just one of these “contextual factors.”

The review of health sector studies by Channa and Faguet (2016) finds that there is only a small number of “high quality contributions” on the issue of preference matching:

But studies across the quality distinctions appear to mostly concur that decentralization changes the pattern of local spending ... While the evidence appears somewhat encouraging for enhanced preference matching in education, contributions in the area of health are decidedly pessimistic due both to

a lack of visible change in allocation patterns and the possibility of externalities in the area.

(ibid.:224f)

It is only in relation to “technical efficiency” that the authors come across positive findings indicating improved service delivery following decentralization of health sector functions (ibid.:225–228).

Five factors have been identified as critical for the success of health decentralization: (i) “a clear and appropriate assignment of functions to the decentralized units,” (ii) “appropriate financing modalities,” (iii) “human resource management,” (iv) “local accountability structures,” and (v) “central institutions for reform coordination and oversight” (Tidemand 2010:22f). This position resonates strongly with our emphasis on the need to link the different dimensions of decentralization, to have a clear understanding of the key building blocks of such a reform (Chapter 1), and to ensure effective social accountability measures which complement the electoral accountability mechanism (Chapter 5).

### *Empirical evidence on education decentralization*

Channa and Faguet’s findings regarding “preference matching” are more positive for the education sector than for the health sector. They cite positive study results from Bolivia, Indonesia, and Uganda, but also negative or inconclusive ones from Pakistan and Russia (ibid.:223f). Overall, they conclude that the studies included in their analysis “are almost unanimous in their support of decentralization’s ability to enhance both the quality and quantity of education” (ibid.:230).

## **4.8 The Challenges of Sector Decentralization**

As mentioned earlier, making sector decentralization work is critically important for the overall success or failure of decentralization reforms. It is often the litmus test for assessing whether a decentralization reform has achieved its objectives. At the same time, decentralization in the sectors can bring into the open many of the conceptual and implementation challenges of such reforms:

- (i) Often, there is fuzziness about the modalities of decentralization being used for making changes in the sector—for instance, school-based management is sometimes being presented as one form of decentralization<sup>37</sup> without taking into account, e.g., the distinction between “devolution” and “delegation.”<sup>38</sup>
- (ii) Reforms are done in a piecemeal manner and not comprehensively, reducing the capability of the emerging decentralized system to produce results. For example, legal inconsistencies between local government acts and relevant sector legislation continue to create confusion; the devolution of political functions is not followed by the devolution of legal mandates; sector functions are devolved while the required fiscal and human resources remain with the central level; and devolution of sector functions does not trigger a transformation of the national sector administration.<sup>39</sup>

- (iii) Decentralization reforms are mixed up with or connected to wider reforms of the public sector such as reforming the civil service, outsourcing to the private sector, use of public-private partnerships (PPP), and outright privatization of sector services. This makes causal attribution of impacts significantly more complex.
- (iv) While “decentralization” might appear to many as a rather general concept, sector decentralization immediately touches upon vested interests of sector stakeholders, such as the public workforce of the sector and its associations/trade unions, professional associations, associations of users of the sector services, civil society users engaged in the sector, private sector interests (both on the demand and the supply side), and others. Sector decentralization is the field where decentralization becomes tangible and visible, and therefore immediately controversial and contested. Still, conceptualizing, designing, and implementing sector decentralization is likely to fail without the involvement and buy-in of sector representatives who, in many cases, require additional capacity development and support to understand the concepts of decentralization and apply them to their own sector.

The current debate about “localizing the SDGs” puts sector decentralization right at the center of any decentralization reform. It is generally understood that SNGs are critically important for achieving most of the SDGs. Therefore, national “localizing SDG” strategies must explore where and how the role of SNGs for SDG-related public services can be strengthened.<sup>40</sup>

The review of empirical findings presented above confirms our argument that decentralization reforms in the sectors must be comprehensive and holistic, must include important sector stakeholders, require time and consistency, and necessitate functioning M&E systems. These are the basis for generating and utilizing learning loops which help to improve the overall performance of sector systems through continuing and incremental adjustments of the sector’s processes and institutional arrangements.

## Notes

- 1 See, for instance, Andrews and Schroeder 2003 for an early discussion of this issue.
- 2 In Mongolia, the pilot exercise on functional reallocation in the environment and tourism sector concluded that the Mongolian COFOG list was “not detailed enough” and “one of the first tasks of the [*Technical Working Group*] of the pilot sector was to establish a list of main and sub-functions based on the sector-related laws and the experience of the TWG members” (DPSP 2017:28). This is part of what has been called “unbundling.”
- 3 See the discussion of the concept of “unbundling” in the following section.
- 4 In reality, we often find a combination of both or a hybrid which exhibits characteristics of both models.
- 5 See Art. 61 of the Sub-Decree on Decentralization of Powers, Roles, and Duties to Commune/Sangkat Councils (Royal Government of Cambodia Sub-Decree No. 22 ANK/BK, 25 March 2002).



- 6 See Chapter 9 on Indonesia.
- 7 See Rohdewohld 2019.
- 8 A 2018 study has shown the reluctance of C/S councils in Cambodia to take up permissive functions for these very reasons. See Chapter 8 on Cambodia for details.
- 9 See Chapter 12 on Pakistan with examples from Punjab and Khyber Pakhtunkhwa. See Janjua and Rohdewohld 2020 for the example of Punjab after 2013.
- 10 See, for instance, Dafflon 2006 for an extensive discussion of principles and criteria which the fiscal federalism theory applies when debating the assignment of functions between levels of government.
- 11 Daflon (2006) discusses “functional and managerial abilities” of decentralized governments.
- 12 Section 5 of the State Policy on Decentralization (Government Resolution No. 22 of 24 January 2018) (unofficial translation).
- 13 See Ferrazzi and Rohdewohld 2017 for details.
- 14 Some observers have attributed the delay of the FA process in the identified priority sectors of Cambodia to the overwhelming influence of the NCDD and its secretariat, which resulted in lack of buy-in by the sector ministries (Koeppinger & Tepirum 2018).
- 15 See Koeppinger and Tepirum 2018.
- 16 For instance, giving more expenditure responsibility to SNGs might require an increase of their thresholds in the public procurement rules.
- 17 See the example of KP/Pakistan discussed in GIZ 2015a.
- 18 See Ferrazzi and Rohdewohld 2017:149ff; Koeppinger and Tepirum. 2018. See also Chapter 8 on Cambodia.
- 19 For details on Indonesia, see Chapter 9. See also Ferrazzi and Rohdewohld 2017:174ff, Ferrazzi 2008, and DSF 2011.
- 20 See Chapter 10 on Mongolia. See also DPSP 2017.
- 21 Government Resolution of Mongolia No. 22 of January 2018.
- 22 See Chapter 12 on Pakistan. See also GIZ 2015a, GIZ 2015b. For the province of the Punjab, see Janjua and Rohdewohld 2020.
- 23 See Chapter 11 on Nepal. See also Government of Nepal (GoN)/World Bank/UNDP. 2019, TAF 2020.
- 24 “External Support for Decentralization Reforms and Local Governance Systems in the Asia Pacific: Better Performance, Higher Impact?” 25–27 August 2015. ADB Headquarters, Manila.
- 25 See the Terms of Reference of the Working Groups in GoN 2017.
- 26 For instance, in the education sector of KP (Pakistan), provincial-level bodies such as a Provincial Institute for Teachers Education, or a Text Book Board, discharge important provincial-level functions (see GIZ 2015a).
- 27 Ideally, the territorial jurisdiction of the deconcentrated units is congruent with the jurisdiction of SNGs. If not, the coordination between deconcentrated and devolved functions becomes more complex. In Cambodia for instance, the “operational health districts” under the Health Department cover on average three administrative districts/municipalities as established under the 2008 Organic Law (Koeppinger & Tepirum 2018).
- 28 For instance, in the Philippines, regional offices of the line departments deal directly with the local government units within the region.
- 29 Parliament, Assembly, Council, etc.
- 30 See, e.g., VNG International 2010.
- 31 See Andrews and Schroeder 2003.
- 32 See, for example, the Final Functional Mapping Report by the Ministry of Rural Development in Cambodia (MRD 2013), or the report on piloting the Functional

- Reallocation Methodology in the Environment and Tourism Sector in Mongolia (DPSP 2017).
- 33 Dunn et al. 2004. Health Department RI 2009. On the debate about MSS, see Ferrazzi 2005 and ADB 2018.
  - 34 “Preference matching” is understood as “the extent to which public goods provided by local governments match citizen’s preferences or demands” while “technical efficiency” refers to “the production of more or better public goods ... for a given set of inputs” (Channa & Faguet 2016:201). The term “preference matching” is therefore synonymous with the term “responsiveness” which we used in Chapter 1.
  - 35 These building blocks include governance, financing, service delivery, health work force, health information, and medicines and equipment (WHO 2008).
  - 36 Such findings are in line with our earlier arguments that “context matters” when discussing the benefits of decentralization reforms. See also Chapter 5 on M&E and the impact assessment of DLG reforms.
  - 37 See Channa and Faguet 2016.
  - 38 Giving a degree of management autonomy to service units (such as schools, health units, providers of drinking water, etc.) for making decisions (e.g., on budgets, programmes, human resources, quantity and quality of services) can without doubt have positive effects on service delivery. But in itself it does not constitute decentralization as understood here but can be regarded as a kind of horizontal and managerial delegation.
  - 39 In this context, Channa and Faguet 2016 speak of “partial and insincere decentralization” (p.202).
  - 40 See Chapter 6 with its discussion of the enabling environment for localizing SDGs.

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# 5 Measuring Performance and Promoting Accountability in the Context of Decentralization and Local Governance Reforms

*Sebastian Bartsch*

## 5.1 The Importance and Challenges of Monitoring and Evaluation in Decentralization<sup>1</sup>

Monitoring and evaluation (M&E) is critical to ensure that decentralization and local governance (DLG) reforms fulfill their development potential and lead to greater transparency and accountability. M&E also helps justify the ongoing support of international development partners. However, only rarely is continuous M&E used to determine whether a decentralization reform is proceeding as planned; whether and to what extent anticipated changes in political institutions, administrative structures, and intergovernmental fiscal relations are taking place; or what works and what does not. Even less known is the *de facto* effectiveness of decentralization in attaining specific political, social, and economic goals, such as improvements in service delivery, accountability and other governance outcomes, poverty reduction, or conflict management. Overall, decentralization reform paths in many countries suffer from a dearth of critical reflection and adaptive capacity, due to limited evidence-based knowledge.

M&E has two complementary functions. One is feedback and learning to inform future action. Measuring the success of policies, programs, and projects, and providing information on their performance<sup>2</sup> and progress, allows accomplishments and problems, as well as their causes, to be identified. This helps create a well-founded knowledge base for further planning, policy development, and decision-making, and for managing activities at sector, program, and project levels. Indications of shortcomings and stagnation can lead to reconsideration of current approaches and trigger necessary adjustments. Positive findings can be used to confirm the path chosen, justify continued engagement, and help mobilize or maintain political support and external assistance.

The other function is to support accountability relationships by revealing the extent to which actors comply with defined responsibilities, roles, and performance expectations, including the proper use of financial resources. Strong accountability can provide powerful incentives to improve performance. Effective accountability mechanisms are key to ensuring that subnational governments (SNGs) respond to the needs and priorities of the local communities, thus preventing elite capture.<sup>3</sup> M&E provides data and evidence needed to underpin

strong accountability relationships within states (“domestic accountability”) and between developing country governments and development partners. In decentralized or decentralizing political systems, lines of accountability are particularly varied.

M&E of countrywide public sector reforms is always a complex task involving coordination and cooperation among a multitude of actors. Both specific and overarching elements need to be addressed. Ownership, leadership, demand, and capacities for M&E are often limited. Incentives to invest in M&E tend to be weak, and misconceptions about its functions abound.

Monitoring and evaluating decentralization processes is even more challenging. This is due to some specific features of decentralization as a public sector reform:

- *Decentralization is a multidimensional reform.* The very concept of decentralization is a generic term for manifold ways of transferring powers and the locus of decision-making from national to subnational governments, or to subnational entities of national agencies. Its motivations, objectives, and development rationales can encompass a variety of issues, and not all of them need to be officially stated. Furthermore, the implementation of decentralization reform covers wide-ranging political, administrative, and fiscal issues. M&E must therefore assess a wealth of areas. These can range from the suitability of the original goals and the outputs and outcomes of particular reform measures and related assistance, to the wider development impact on democratization, political stability, regional disparities, or poverty reduction.
- *Decentralization is a multi-level reform.* It involves national, local, and often one or more intermediate (regional, district, etc.) levels of government. Decentralization shifts, transfers, and rearranges responsibilities, resources, and power between these levels and their respective actors and institutions. Consequently, M&E of decentralization must also be multi-level in nature. It must deal with the respective processes, actors, and institutions at these levels individually, and with their interaction across levels. This presents considerable challenges for communication, coordination, and resourcing. A particular challenge is that statistical and analytic capacities, as well as data availability, usually decrease as one moves from the national level down to the local. Partly diverging M&E interests and needs of stakeholders at the national and subnational levels further complicate the task.
- *Decentralization has profound sectoral repercussions and is linked to complementary public sector reforms,* if seriously pursued. Important outcomes of decentralization must manifest themselves at sector level, in the improvement of service delivery in areas where responsibility is wholly or partly in the hands of subnational actors.<sup>4</sup> In addition, it is difficult for decentralization reforms to succeed without corresponding reforms to public service and public financial management. Thus, M&E of decentralization must also consider developments in these areas and their significance for the wider decentralization effort.

- *Decentralization is fraught with political sensitivities and tensions*, even though these are not always in the public eye. It is not just a technocratic reorganization of the state structure; it redistributes political power, responsibilities, and resources among social groups and different government and administrative levels. It produces “winners” who gain new or enhanced opportunities and scope for action, while others may perceive the effects as a loss of power, even if they get other important tasks in areas such as supervision, capacity development, and monitoring.<sup>5</sup> In such an environment, creating transparency and making information on performance and progress available to the public may not always be seen as desirable by everyone. M&E will most certainly at some point produce data that can be embarrassing, politically sensitive, or detrimental to those who seek or exercise power, and thus become entangled with related political dynamics.

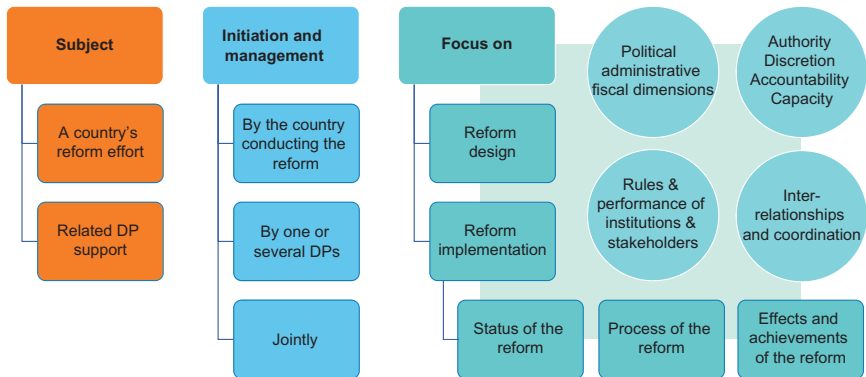
Further challenges complicate the task. The temporal nature of decentralization reforms suggests that important results might materialize only over extended periods of time. Situations, objectives, and the focus of reform may change during the process. There can be considerable discrepancies between formal authority and informal practice. For example, national government agencies may continue to play an excessive role in services for which responsibility has been formally shifted to SNGs. Country- and context-specific conditions have an immense influence on reform designs and implementation. Finally, there is no ideal decentralization scheme and no agreed international “best practice” model for a decentralized system against which outcomes can be measured.

## **5.2 What to Analyze When Monitoring and Evaluating Decentralization Reforms**

As multifaceted as decentralization reforms are, so are the types and core areas of decentralization M&E (see Figure 5.1). Some basic distinctions can be made along the following axes:

- M&E of decentralization reforms may target the advancement of a country’s reform effort or the results of related international development partner support. Usually, one of these two motivations is clearly of primary importance, and little attention is given to the other.
- It can be initiated and managed by the country conducting the reform, by one or several development partners, or jointly by both. While there has been increasing emphasis on developing countries’ responsibility and systems in the past decade and a half, the role of development partners in stimulating and implementing M&E efforts still cannot be overestimated.
- It can focus on reform design or reform implementation. In practice, there is a marked preponderance of the former and an inadequate attention to actual implementation (LDI 2013:45).





*Figure 5.1* Types and Core Areas of Decentralization Monitoring and Evaluation.

Source: Author.

- M&E analyses can be directed to varying degrees to the status, process, or effects of a decentralization reform. These can be analyzed in technical and institutional terms. Technical aspects usually refer to the political, administrative, and fiscal dimensions of decentralization. These could include: (i) the local electoral and political party system, the quality of decision-making, the responsiveness of local political mechanisms, and local participation and transparency (the political dimension); (ii) regulatory powers and local ability to plan and regulate local physical space, local human resource administration and staffing, and the administration of local public services (the administrative dimension); and (iii) revenue and expenditure assignments (the fiscal dimension) (Boex & Yilmaz 2010; LDI 2013). Issues of authority, discretion, accountability, and capacity are of particular interest within each technical dimension (USAID 2009a; Boex & Yilmaz 2010; Shair-Rosenfield et al. 2014). From an institutional perspective, the main interest lies in: (i) the respective roles and performance of national and subnational government institutions, civil society, and private sector stakeholders; (ii) the interrelationships and coordination between different elements and levels of a country's intergovernmental system; and (iii) the relationships between the public sector on the one hand and people, citizens, and voters on the other.
- Finally, in achieving the objectives of decentralization, there are different levels or "classes" of results, which may be of interest to M&E efforts. The application of the usual terminology of output, outcome, and impact is not always consistent in M&E studies of decentralization. However, it is important to draw a distinction between typical principal decentralization objectives or outcomes on the one hand, and impacts at higher, more aggregated levels—more distant in the results chain—on the other. The former concern mainly better public service delivery—such as improved access, efficiency,



quality, and responsiveness to local needs and priorities—and governance benefits such as community empowerment, civic participation, local democracy, transparency, and accountability. These may also have important gender equality implications as decentralization offers opportunities to enhance gender equality by creating space for autonomous decision-making and participatory processes at the local level.<sup>6</sup> It is therefore important that gender issues are also considered in M&E of decentralization and reflected in the selection of M&E methods—for example, by collecting and processing gender-disaggregated data. Decentralization impacts at higher aggregated levels, by contrast, are most often anticipated in relation to the reduction of conflict and poverty. However, to what extent and under what conditions decentralization actually has these effects has not yet been sufficiently researched and proven.

### **5.3 Monitoring and Evaluating Decentralization and Developing M&E Systems**

There is no single effective analytical M&E framework that can capture all relevant details of the decentralization reform it seeks to assess. Neither is there a generally accepted “best practice” approach to analyzing the process of decentralization and its actual impact on development outcomes. Decentralization can be, and is, monitored and evaluated at several distinct levels, and different units of analysis can be targeted. Consequently, many studies are limited to selected issues, services, or locations. Such partial M&E is not only legitimate; it can also be necessary, as a focus on specific aspects allows for more detail.

A comprehensive system for M&E of a decentralization reform, by contrast, is very different from partial M&E. It resembles a “whole of government” M&E system. The rationale for a more comprehensive approach is evident. The success of decentralization reforms and the effectiveness of a system of intergovernmental relations can be better assessed if the dimensions or subsystems of decentralization are considered together. When the focus of M&E is exclusively on individual dimensions or subsystems of decentralization, without taking others into account, a great deal of understanding is lost.

An inadequate analysis might focus, for example, on assessing decentralization outcomes, while neglecting to analyze the processes and procedures needed for decentralization reforms to be effective over the long term. Outcomes must be understood in terms of the institutional framework in a particular country, and the formal relationships among differentially empowered levels of government that affect outcomes. If poor outcomes are documented, it is critical to determine whether this is due to inherently undesirable reforms or lack of political commitment, changes in the political landscape, and missteps in the process.

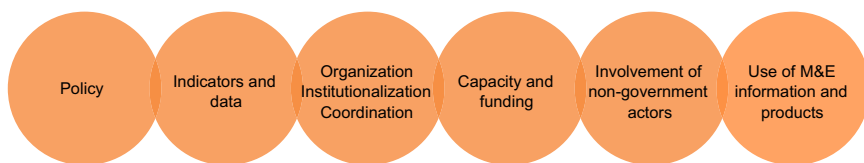
Another example is analyzing subsystems, such as SNG performance, without taking into account national government and central-local relations, sector policies and procedures, local civil society, and SNG–local community relations.

Ineffectiveness of the local public sector, for example, is often “caused by poorly designed intergovernmental systems or by central government agencies that have excessive authority and/or insufficient accountability or capacity” (Boex and Yilmaz 2010:11). Therefore, it would unduly simplify matters to say that SNGs have improved or worsened outcomes as a result of or despite decentralization when other factors have been as important as, or more important than, decentralization in producing the observed results. Boex and Yilmaz (2010) ask good analytical questions in this regard.

Drawing inferences from isolated observations and variables may lead to wrong conclusions and decisions. Where this happens, the learning function attributed to M&E is rendered ineffective. Thus, not all decentralization analysis must be comprehensive, but partial M&E must be framed to recognize interdependencies among elements that must work together if the reforms are to be successful.

M&E is first and foremost the task of decentralizing countries themselves. Many international development partners are supporting countries in their efforts to build their own M&E systems and corresponding statistical capacities, and guidance in this area has proliferated. However, relatively little is known about the status of efforts to establish and use M&E systems specifically in the area of decentralization reforms. For this reason, the Development Partners Network on Decentralisation and Local Governance (DeLoG) took a closer look at how far the development of M&E country systems for decentralization had progressed in practice. The analysis (Bartsch 2015) drew attention to six dimensions of particular importance for the setup of such systems (see Figure 5.2).

(i) *Policy*: A country system for M&E of decentralization needs to be based on a dedicated M&E policy, strategy, or any other equivalent orientation. It must set out the norms, rules, and standards of the system; define what has to be measured, monitored, and evaluated; and identify why, how, by and for whom, and how frequently these processes are to be undertaken. Efforts required to make the system work, including in the area of capacity development, should equally be outlined. Such comprehensive guidance for M&E of decentralization and dedicated plans for the establishment of an M&E system to support decentralization reforms is rarely found, but there are encouraging exceptions such as in Cambodia (see Box 5.1).



*Figure 5.2* Key Dimensions of Country Monitoring and Evaluation Systems for Decentralization and Local Governance Reforms.

Source: Author.

### BOX 5.1 MONITORING AND EVALUATION STRATEGY IN CAMBODIA'S DECENTRALIZATION REFORMS

In Cambodia, the National Committee for Sub-National Democratic Development (NCDD) produced an M&E strategy as an annex of the successive 3-Year Implementation Plans (IP3s) of the country's *National Program for Subnational Democratic Development* (NP-SNDD). It also produced an M&E manual. The M&E strategy and the IP3-III results framework describe what IP3 expects to achieve and how achievement will be measured. It describes results, indicators, and data collection processes. Five main types of results are identified: (i) citizen level results, which include improvements in welfare; (ii) subnational administration (SNA) service delivery results; (iii) improved local governance; (iv) improved internal operations of SNAs; and (v) program implementation results. The strategy also outlines how to get M&E to work better; e.g., by encouraging SNAs, civil society organizations, and citizens to undertake and promote M&E practice. The depicted M&E approach is facilitative, decentralized, and reliant upon an open exchange of information.

The M&E manual is designed to familiarize implementers of Cambodia's 10-Year National Program for Subnational Democratic Development and of the related IP3s with a set of M&E methods and tools. It explains how tools are to be used in practice and how processes of their use are to be organized. Specifically, this involves reports on the implementation of annual work plans and budgets, SNA capacity assessments, governance surveys, several policy evaluation tools, and impact evaluation. IP3 achievement is measured, *inter alia*, through gender audits (two have been realized in 2013 and 2016), and the IP3-III results framework includes gender-related output indicators.

Source: RGC (2019)

National decentralization policies, strategies, and implementation plans can also serve as sources of M&E guidance. However, in some decentralizing countries, either there are no dedicated policies in place for decentralization, or the preparation and adoption of new policies to replace outdated ones has stalled. In those cases where a decentralization policy exists, it often refers to the importance and intention of developing an M&E system. Several policies mention responsible institutions and some key tasks to be carried out in setting up the system. Some go further and sketch out future performance measures and indicators, reporting schedules, elements of the future system's institutional structure, activities to be conducted, or actors to be involved at national, regional, and local levels once the system is operational. Thus, such references to M&E in decentralization policies tend to be more than a mere formality, even though they cannot compensate for the lack of a dedicated policy document on M&E of decentralization. In addition, interesting insights can also be drawn from whether and how the needs of decentralized M&E are considered in national strategies for the development of statistics (NSDS).<sup>7</sup>

(ii) *Indicators and data collection:* M&E efforts of many countries, and sizable parts of related development partner support, are devoted to defining and compiling indicators. While this is essential for any M&E strategy, there are

considerable challenges in this area. Decentralization covers wide-ranging political, administrative, and fiscal reforms involving various levels and a wide range of actors. Thus, there is a wealth of areas where progress can be tracked and performance assessed, and a risk that lists of indicators can get out of hand. And there are other complicating factors. Impact indicators that allow judgments about big-picture progress are likely to be composite indicators, with the database spread over several ministries. There are many data producers, including national statistical offices, deconcentrated services, local authorities, civil society actors, and international development partners, between whom there is little coordination. There are also many data users with different information needs.

In some countries, the quality of data relevant to decentralization tends to improve, and interesting indices have been created, even if they are not always used on a sustainable basis. India, for instance, used a comprehensive “Devolution Index” for many years but discontinued it because of shifting political priorities (see Box 5.2). However, the practice of collecting data and linking them with data processing is rarely in line with standards of statistics. Many activities in data collection are unreliable or limited to piloting exercises in local areas. In many places, a proliferation of uncoordinated and piecemeal data collection initiatives produces incoherent information. Where the required collection tools are available, they are rarely used for the specific purpose of decentralization M&E. In particular, statistical data from large national surveys are rarely territorially disaggregated. In addition, the quality of administrative records of national ministries and their deconcentrated structures, which are important sources of data, is often questionable. At the local level, in turn, data collection efforts are too often limited to activities that serve the interests of national authorities.

#### **BOX 5.2 INDIA’S DEVOLUTION INDEX**

From 2006 to 2016, the Government of India made considerable efforts to collect and process data on the progress of implementing decentralization. From 2006, the Ministry of Panchayat Raj (MOPR) undertook the preparation of an annual Devolution Index (DI). For the first three years, the National Council of Applied Economic Research (NCAER) developed the DI. For the next four years, the Indian Institute of Public Administration (IIPA) was entrusted to carry out the assessment. Initially, the DI focused on functions, finances, and functionaries (the “3Fs framework”). Other dimensions were included later to assess mandatory provisions of the Constitution of India. In 2010–2011, an “incremental devolution index” was introduced along with the overall Devolution Index to highlight short-term initiatives undertaken by various states. In 2012–2013, two more pillars of state performance were added: “capacity building of panchayats” and “accountability of panchayats.” In 2014–2015, the MOPR entrusted the preparation of the DI to the Tata Institute of Social Sciences (TISS). TISS further developed the methodology, widened the scope, and published an extensive *Devolution Study for 2015–2016* that turned out to be the last one as there was no longer sufficient political demand.

Source: Government of India/TISS (2016)

(iii) *Organization, institutionalization, and coordination*: Although their basic configuration of actors is not significantly different from other country M&E systems (Bartsch 2015: 28), M&E systems for decentralization exhibit some specific features. The most significant difference is that the consistent involvement of subnational levels and actors is indispensable. M&E for decentralization requires dedicated structures tasked with leading the M&E effort at subnational levels, including locally elected officials such as mayors and councilors, and local administration. Systems with a strong element of deconcentration must also involve departmental prefects and administrations, as well as deconcentrated technical services of the central government. In addition, and of particular importance, dedicated bodies are needed to link M&E focal points and dedicated M&E units at the various levels. Finally, depending on the size of the country and the maturity of the decentralization process, decentralized entities of national institutions such as national statistical offices (which acquire additional tasks in decentralized M&E systems as training and quality assurance providers) and schools of administration can be a factor. A further fundamental organizational challenge is the linkage with sectoral M&E efforts.

Efficient institutional and coordination mechanisms, including an agreed final approval mechanism bringing together the various perspectives, are therefore particularly important for decentralization M&E. Yet more often than not, the institutional setup rather than M&E technicalities is the sore spot in countries' M&E systems (Holvoet & Inberg 2015:139). For the majority of decentralizing countries, the design, deployment, and operation of a viable institutional setup for M&E poses considerable challenges. The ministry in charge of decentralization is often politically or technically too weak to take a prominent stance and to effectively coordinate the institutional dimensions of the M&E effort. As a result, many institutional frameworks for M&E of decentralization are still in their infancy or remain confined to the conceptual level, with limited implementation.

(iv) *Capacity and funding*: Capacity is not simply one ingredient of a country M&E system among others. It is structurally important for the entire system and a decisive factor for each of its elements. As a consequence, capacity requirements in M&E go far beyond statistics and data analysis. There is also a need for coordination capacity and—both in government institutions and among other stakeholders—for the capacity to demand and use M&E information.<sup>8</sup> It is therefore important to train technical M&E experts and to ensure that non-technical personnel, such as program managers and activists in civil society organizations, have a suitable appreciation of M&E concepts. The establishment and operation of a country M&E system requires key capacities to be built across a great number of actors and stakeholders.

Insufficient capacities in this broad sense are a major obstacle to more substantial progress on country M&E systems. Virtually all decentralizing developing countries are facing major capacity constraints in both M&E and decentralization, and consequently at the intersection of both. Particular scarcity exists at decentralized levels where actors lack the resources and responsibility to take the necessary

corrective measures themselves. However, there are “pockets” of M&E expertise in all countries, even in the poorest, that are often under-recognized.

Establishing and running a country M&E system requires large and sustained financial investments, even before benefits of this work can be reaped on a large scale. Developing countries usually avoid large expenditures for M&E, including for their national statistical offices. This may be because of financial constraints or a lack of commitment to the very idea of developing a systematic approach to M&E. Or it may be because international development partners are willing to take over the lion’s share of the costs. In fact, resorting to development partner funding is often the only way to get a determined effort in M&E going, and in many countries core data collection activities are funded primarily by external sources (Glassman & Ezech 2014). But this comes at a price. It creates dependence on development partners, hampers the emergence of country ownership, and risks developing piecemeal M&E initiatives and tools that are neither sustainable individually nor coherent as a whole. This general description of the situation of country M&E systems also holds true for M&E systems that support decentralization reforms.

(v) *Involvement of nongovernmental actors:* M&E supply and demand outside of government structures is important for country M&E systems and their key objectives of learning and accountability. Nongovernmental organizations (NGOs), academic institutions, and the media can play important roles by articulating demand for M&E, actively participating in the development of M&E policies and guidelines, watching government performance, and producing and providing M&E information. A vibrant civil society that champions the values and ethics that underlie a successful M&E system—transparency, objectivity, accountability, and good governance—is an important element in an enabling environment. It can put pressure on governments by demanding they publicly report and explain their performance. In this way, M&E provides a vehicle to magnify the voice of civil society and its organizations. Activities to produce and provide M&E information cover a wide area, ranging from participatory approaches such as community-based monitoring to extensive evaluations contracted out by governments to academia.

Where service delivery is decentralized, there is potential for cooperation with commercial utilities and other private sector stakeholders, particularly at the local level. They, too, often rely on M&E, gather their own data, and conduct evaluations in their respective service sectors. Although seldom practiced to date, cooperation with the private sector on M&E is worth more exploration, particularly given the financial and human resource constraints that limit so many public M&E efforts. Certain surveys could be carried out jointly, and data and expenses could be shared.

The influence of international development partners on country M&E systems can be quite strong. Many countries receive considerable technical and financial support. This support can take the form of piecemeal initiatives and projects; advice and funding for individual events, trainings, and studies; or large scale, multi-donor financial contributions for statistical capacity development. Such assistance can be a blessing or a curse. On the one hand, it is often essential

to get a determined M&E effort going. Progress in M&E of decentralization is sometimes reported to take place mainly or only in regions where there is development partner support. On the other hand, this support is often fragmented, volatile, insufficiently aligned with developing countries' needs, and incoherent in terms of levels of interventions, modalities, and targeted regions. Differences in development partners' M&E philosophies, aid modalities, and reporting requirements can impede greater harmonization. This not only increases the costs of programs and projects; it also undermines developing countries' M&E efforts and systems. But part of this picture is also that developing countries often do not formulate their support needs concretely enough.

(vi) *Use of M&E information and products*: The bottom-line measure of success of a country M&E system is the extent to which M&E information is used to improve performance for learning and accountability. Use implies that enough M&E information is produced. In many developing countries, there is too little reliable information produced on the progression and results of their decentralization processes. This is due to the widespread shortage of capacities and funding, and a variety of impediments to effective data collection and processing. In some countries, efforts in M&E of decentralization are not sufficiently advanced to develop any concrete products. In others, the situation is better, though not satisfactory. They may have, for instance, collections of statistical data that are not specifically focused on decentralization but nevertheless have some relevance for a decentralized context. These may include regional statistical yearbooks, local budget analyses, or studies on service provision in decentralized sectors such as education and health that contain data from subnational sources. One can also find scattered studies on decentralization which may be exploratory in nature, assessments of local authorities' performance, and progress reports such as midterm evaluations of decentralization policies (USAID 2009b; NCDD 2012; Particip & EuroPlus 2016; Australian Aid/The Asia Foundation 2017; ADB 2021).

Occasionally, the findings and recommendations of such studies are presented to the competent authorities. However, this does not automatically mean they will be used for more evidence-based steering of the decentralization process, for reconsideration of current approaches, or as a trigger for necessary adjustments. A major reason is that there is often insufficient consultation between producers and potential users of M&E data, and little direction on how governments and administrations are expected to actually implement recommendations.

It is important to understand that none of the aforementioned six dimensions will proceed as required unless there is sufficiently strong and consistent political commitment and support. Organizing and securing this support is an essential element in any systematic M&E effort. Political support needs to be constantly generated from many governmental and nongovernmental sources, harnessed, anchored, and sustained over time, not least when a new government and administration comes into office.

To sum up, country M&E systems in decentralization are characterized by considerable efforts and some achievements on the one hand, and striking



deficiencies on the other. Most decentralizing countries are considering M&E in some form or other. Many are on the way, albeit at different stages and with different degrees of momentum and progress. Apart from officially stated and documented intentions to create an M&E system, there are exploratory studies, piecemeal M&E elements<sup>9</sup> that could be integrated into a future system, pockets of M&E expertise, beginnings of networks, M&E units in national ministries, and occasionally M&E “cells” at subnational levels. However, many efforts are still confined to the level of plans and concepts. There is much more on paper than in operation, as with many DLG reforms in general. There is also a wide imbalance in practical action, with many activities in data collection and processing, but comparatively few presentable products—and even fewer examples of use of M&E findings. Moving from concept to implementation, and beyond engagement in data-related activities, poses considerable challenges.

The need for further improvement in monitoring and evaluating the status, process, and effects of decentralization, including development partner support, is therefore undeniable. At the same time, the discrepancy between the significant efforts undertaken, and the limited progress made so far, suggests that “more of the same” is unlikely to deliver better results and that the case for a new departure is strong. Two propositions seem crucial. First, requirements and expectations of these systems must be scaled down to bring M&E closer to country realities (settling for “good enough” country M&E systems). The key question here is how adequate country M&E systems can be established and implemented in context of decentralization without falling into the traps of over-ambition and over-engineering. Second, a stronger focus is needed on the political economy of M&E in contexts of decentralization. This means more consideration must be given to identifying the political and institutional incentives that drive politicians, bureaucrats, and other actors to support or oppose M&E efforts in such contexts.

## **5.4 Findings and Limitations of Development Partners’ Evaluations and Studies**

International development partners play an important role in promoting the M&E efforts of decentralizing countries. They also contribute to the growth of empirical evidence by commissioning studies of various kinds, and through their own evaluations.

In terms of the existing knowledge about Asian and Pacific countries’ decentralization processes, Paul Smoke’s overview analyses and literature reviews (LDI 2013; Smoke 2015) are particularly instructive.<sup>10</sup> They illustrate the great diversity of reform approaches and trajectories in an easily understood way. Given the complexity involved in this set of countries, few policy generalizations or definitive recommendations for reform can be made beyond relatively broad statements about the shape of decentralization in Asia and the Pacific. The same can be said about how well decentralization has performed—a range of both positive and problematic outcomes have been observed. A recurrent theme in the analyses is regret about the lack of empirical evidence on decentralization outcomes. This



applies even to ambitious decentralization processes such as in Indonesia or the Philippines, on which there are comparatively many studies.

Development partner evaluations, however, usually do not focus on the course or the effects of decentralization reforms. Instead, they assess the effectiveness of the support provided and of the specific instruments used to achieve decentralization-related and/or further-reaching reform objectives such as more inclusive and environmentally sustainable growth, infrastructure development, or improvement of economic governance. Thus, insights concerning decentralization are often limited.

For the Asian Development Bank (ADB), DLG is one of the core sub-sectors of public sector management (PSM). The significance of DLG is confirmed in the bank's current Operational Plan 6 for the implementation of its long-term *Strategy 2030* in the areas of governance and institutional capacity (ADB 2019a). Over the past two decades, ADB has been involved in many decentralization reforms in the region, including Cambodia (Niazi 2011; ADB 2018b), Indonesia, Nepal, the Philippines, and Pakistan (ADB/DFID/World Bank 2004), mainly through policy-based lending, sector programs, and technical assistance. It has also supported important service delivery programs such as a conditional cash transfer program in the Philippines.

The focus of ADB's decentralization support has varied with governments' changing needs over time. Early support was focused on establishing national frameworks for institutional and capacity development. These helped enable SNGs to assess and address their own needs in relation to their new functions in human resources, financing, and organizational structures. At later stages, ADB's support was intended, for instance, to help strengthen subnational governments' capacities in financial management; in particular, mobilization of own-source revenue. It also focused on improving SNG's project preparation and implementation capacity as part of infrastructure development, and on promoting coordination of overlapping functions and oversight across national and subnational levels. The bulk of this work occurred in Cambodia, Indonesia, the Philippines, and Pakistan. In Indonesia, for some years, ADB had a cross-sectoral focus on fiscal decentralization with sectoral contributions through, for instance, extensive projects on decentralized health services and decentralized basic education.

While there are no specific evaluations of ADB's support for decentralization, the topic is covered to some extent in wider evaluations of policy-based lending (PBL) (ADB 2018a), support for enhancing governance in ADB's public sector operations (ADB 2014), and assistance programs to the decentralizing countries of Indonesia (ADB 2019b) and Pakistan (ADB 2013). However, these evaluations did not focus on the course or the effects of decentralization reforms. Instead, they assessed the effectiveness of ADB's support and the specific instruments used in attaining further-reaching reform objectives such as more inclusive and environmentally sustainable growth, infrastructure development, or improved economic governance. Thus, decentralization in itself was not so much of interest, and insights concerning decentralization were limited. Nevertheless, a few points stand out:

- The 2014 *Governance Evaluation* concluded that only half of the decentralization projects succeeded. Overly ambitious and complex designs and lack of government capacity and/or resources were the top two factors in failed decentralization projects (ADB 2014:26, 31). By contrast, important factors for successful decentralization support were identified: (i) regular consultation and dialogue among national and subnational government stakeholders and other development partners; (ii) support for champions and leaders in agencies to ensure the institutional sustainability of program gains; (iii) adequate consideration of sociopolitical, administrative, and historical contexts in project design and implementation; (iv) well-designed frameworks and effectively sequenced programs; (v) harmonious interlinkage of policy objectives to bring about the program's main objective; (vi) program design flexibility, given the complexity of decentralization, with its major changes in legal and regulatory framework, institutional arrangements, SNG financial infrastructure, and human capacity; and (vii) synergy among ADB-financed projects.
- In the recent *Country Assistance Program (CAP) Evaluation Indonesia* (ADB 2019b), ADB's core lending related to decentralization and its supporting technical assistance projects were considered "generally effective in supporting required policy reforms." In the area of fiscal decentralization in particular, the influence of ADB support was found to be "evident." The share of own-source revenue in total regional government revenues increased from 18% in 2011 to 23% by 2014, mainly due to devolved collecting of property taxes. Efforts related to SNG financial management, by contrast, did not yield the expected results; this finding contradicted the governance evaluation, where support to SNG financial management in Indonesia was considered a "success story" (ADB 2014:xiii). What is more, support was not very effective in helping develop the institutions and processes needed to implement the required policies (ADB 2019b:32).
- In a brief section on Indonesia, the ADB report *Policy-Based Lending 2008–2017: Performance, Results, and Issues of Design* stated, *inter alia*, that "the process of decentralization to date has produced variable results in terms of increasing citizens' access to local services" (ADB 2018a:38). There has been a general improvement and regional convergence in access to services, while the quality remains poor, and the regional disparity (in qualitative terms) is widening. These results "demonstrate that, while improved service delivery through decentralization remains a long-term development objective, the foundations have been laid" (*ibid.*). Beyond this finding for Indonesia, however, the report considered the significance of decentralization to service delivery and other goals such as poverty reduction and economic growth "unclear." On the same note, it criticized ADB's project reports and other documents for not providing information on the envisaged relationships ("theory of change") between decentralization and the stated goals (ADB 2018a:xxii).

- The PBL evaluation also stressed the importance of political economy analysis for adequately assessing the economic and political dynamics that are crucial determinants of ownership and commitment on the partner side. A concrete example is ADB's largely unsuccessful support to help shape SNG systems and service delivery in Pakistan in the early 2000s. The report states that "in hindsight, the design of ADB support for the devolution process in Pakistan was based on an insufficient understanding of political economy risks" (ADB 2018a:54).

Other international development partners<sup>11</sup> have also evaluated their decentralization support.<sup>12</sup> These evaluations, some of which date back more than ten years, covered in some depth support provided to selected countries in Asia: India, Sri Lanka, Nepal, Viet Nam, Indonesia, Pakistan, and the Philippines.

The World Bank's evaluation covered almost two decades (1990–2007) and addressed several questions regarding the quality and results of support (World Bank 2008). It reviewed in particular whether the support was based on a clear understanding of country context, whether it appropriately reflected the specific circumstances associated with decentralization in those countries, whether it was internally coherent and results based, and whether it was provided in collaboration with other development agencies. It focused on intermediate outcomes rather than attempting to assess final outcomes for two reasons. One was the paucity of data on final outcomes in World Bank reports. The other was the challenge of attribution: even if data on service delivery and governance at the SNG level were reliably available, it would have been difficult to assess whether such improvements were due to decentralization, let alone whether it was due to support provided by the bank, because of the multiple factors that influence such outcomes. Among other things, evaluation findings showed considerable weaknesses in the quality of support provided (with a clear trend toward improvement over time) and very different degrees of success in different fields of action. For example, it showed more success in helping to strengthen the legal underpinnings of inter-governmental fiscal relations and the financial accountability of SNGs to higher levels of government. It showed less success in helping to strengthen frameworks for own-source revenue, enhance such revenue, clarify the responsibilities of the various levels of government, and support monitoring at the local level.

The evaluation conducted on behalf of the Commission of the European Union (EC 2012) covered the years 2000–2009 and stands out for the breadth and depth with which support was analyzed. All evaluation questions concerned that support, examining: (i) the policy framework for programming and implementation; (ii) the EC's institutional capacity for support of decentralization processes; (iii) its responsiveness to national contexts and alignment with national regulations and policies; (iv) coordination and complementarity with other donors and coherence with EC policies and activities; (v) the contribution of EC support to decentralization of powers, functions, and resources for SNGs in partner countries; (vi) its contribution to strengthening capacities of stakeholders

involved in the decentralization processes in partner countries; (vii) its contribution to improving local governance, especially regarding participation, accountability, and transparency; and (viii) its contribution to enhancing and sustaining service delivery at local level.

Among its findings was evidence that EC support was most effective in the development of decentralization policies, transfer of fiscal resources to SNGs, strengthening of local staff capacities for planning and public financial management (PFM), and provision for improved access to selected services. EC support was less effective in deepening legal reforms, transferring human resources, building central government reform management capacities, extending the degree of SNG autonomy (except for management of discretionary grants), and improving the quality of local services. One particularly interesting finding was that the EC generally was most successful in providing support in countries at the very early stages of decentralization reforms. In those with more mature decentralization reforms and SNG systems, it proved more difficult to engage successfully. Reasons for this included limited technical expertise and human resources available both in EU Delegations and at headquarters.

## 5.5 Accountability Mechanisms

Accountability means that actions and decisions taken by public officials are subject to oversight to ensure that government initiatives meet their stated objectives and respond to the needs of the community they are meant to benefit. It is, along with learning, a key function of M&E.

The concepts of decentralization and accountability are closely interlinked. Enhancing accountability is among the most important intended outcomes of decentralization. At the same time, effective accountability mechanisms are among the determinants of success in decentralization reforms and better service delivery; their absence is one of the major obstacles to the establishment of well-functioning decentralized systems. Without strong accountability mechanisms, chances are slim that SNGs will perform newly acquired functions in a responsive and efficient manner and that elite capture will be prevented.

What are the things that SNGs can be reasonably held accountable for? An easy answer is that SNGs should be held accountable for those aspects of government policy and public service delivery over which they have control, influence, responsibility, or which is legislated, or at the very least in a regulation or policy. The latter could include issues such as basic service delivery and infrastructure maintenance, local economic development, preparation of local development plans and budgets, and spatial development and land allocation. But the mandates and responsibilities of SNGs are often not sufficiently clear, or there are duplications and overlaps in “who does what.”<sup>13</sup> SNGs often complain, mostly with good reason, that they have been given responsibilities without the required authority or financial and human resources to exercise those responsibilities (see Figure 5.3).

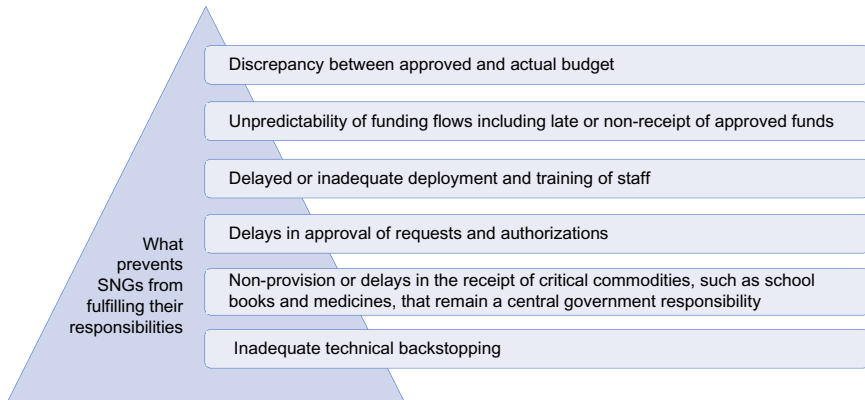


Figure 5.3 Obstacles to Subnational Government Accountability.

Source: Author.

In any case, decentralization changes accountability arrangements. It reshapes power relations between local residents, local governments, producers of services, and central government. It sets new rules for the political game, helping new local leaders emerge in the political competition. It thus redefines the interactions between local leaders and their constituencies. Similarly, as a result of new regulatory and financial powers over procurement and service delivery, the decisions and actions of SNGs have greater impact on local economies. Decentralization thus leads to new interactions and contractual relationships between SNGs, small and big private firms, providers and producers of services, communities, and non-governmental organizations.

More specifically, by transferring power and authority from higher to lower levels of government elected by local constituencies, decentralization changes the incentives available to local authorities, and thus their behavior. “Local” authorities not elected by local citizens but rather selected by higher-level authorities face strong incentives to respond to central government priorities and concerns. Their immediate accountability for their performance is upward to the center, which has power over their careers, salaries, and broader professional prospects. It runs much less downward to the citizens who use local public goods and services, as incentives to respond to their needs are weak. Decentralization reorients these incentives. “Local” officials become true local officials. Their tenure and career prospects are more in the hands of the citizens they serve and who elect them. Decentralization thus tightens the loop of accountability between those who produce public goods and services and those who consume them.

All this means that with decentralization, lines of accountability are expanded and increasingly complex. Three such lines, with SNGs each in the center, must be distinguished (see Figure 5.4):

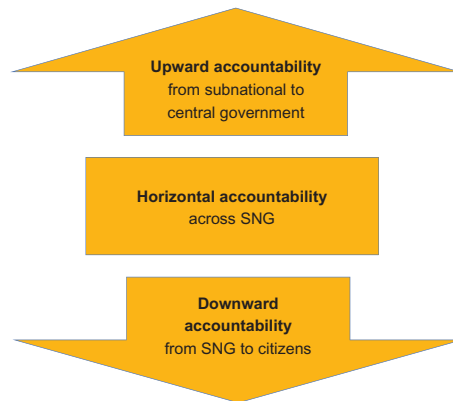


Figure 5.4 Lines of Accountability in Decentralized Settings.

Source: Author.

(i) *Upwardly from local to central government*: This form of vertical accountability is

closely associated with notions of compliance and control, as well as of performance monitoring. Such accountability goes to the heart of public financial management concerns e.g.; observance of financial rules and regulations, procedures for preparation, approval and monitoring of budget, financial reporting and audit (internal and external) and performance monitoring against agreed targets/ indicators.

(DeLoG 2014:50)

Other areas include SNG compliance with sector service delivery standards and national planning, and SNG adherence to human resource management rules and regulations.

It must be noted that in a decentralized system, SNGs can only be effective if they receive appropriate support from central government, and if intergovernmental systems are well designed and functioning. Therefore, central governments should also be downwardly accountable for fulfillment or non-fulfillment of their responsibilities in making the system work. However, this part of the accountability equation between local and central governments is rarely discussed, and the accountability relationship between the two levels is hence very unbalanced.

(ii) *Horizontally across SNGs*: Decentralization requires local agencies to report “sideways.” Forms of horizontal reporting vary considerably, depending

on the nature and extent of political and administrative decentralization. These variables may include:

- The type of executive model (elected mayor or central government-appointed mayor or local council-appointed mayor or executive committee of local council).
- The status of elected officials and local parliaments.
- The extent to which elected officials are responsible for approving and monitoring plans and budgets for which they can hold staff to account for results.
- The ability of the administrator or chief executive to hold line and sector departments to account.
- How much control the local authority has over centrally appointed staff.

Important fields for these oversight and accountability practices within and between different public institutions include public financial management concerns, transparency and openness of the procurement process, and civil service rules. In addition, well-functioning local government associations may promote horizontal accountability among SNGs by providing peer challenge and support, without SNGs becoming literally accountable to such bodies.

*(iii) Downwardly from SNG to citizens:* Because of the imperfections of the forms of public accountability, accountability mechanisms that rely on civic engagement have emerged. In this instance, citizens and/or civil society organizations (CSOs) participate either indirectly through elections or directly through non-electoral mechanisms to ensure accountability. Very often, such “social accountability” mechanisms are demand-driven and operate from the bottom-up, but they can also be initiated and supported by the state, or by citizens and state jointly (UNDP 2013).

Social accountability mechanisms have the potential to play a key role in improving governance, increasing development effectiveness, and promoting empowerment. They can serve as relevant accountability tools across all technical dimensions of decentralization. As dedicated, functionally limited mechanisms, they can also make an important contribution toward the wider M&E effort. Setting an appropriate balance between upward and downward accountability, which can evolve as SNGs grow stronger and are better able to manage functions more independently, is therefore essential. In addition, where local councils are elected, horizontal accountability across SNGs needs to be developed.

To be effective and sustainable, social accountability mechanisms must be properly institutionalized and not one-off measures. They should be implemented in more than a few pilot locations, adaptable to and suitable for the conditions of the particular locality, gender-sensitive,<sup>14</sup> and not dependent on unpredictable development partner funding. Where levels and quality of participation are unsatisfactory and capacities of citizens and CSOs insufficient, it is particularly

important that SNGs and citizens are simultaneously empowered and that citizens and CSOs become skilled at interacting with SNGs. A further key prerequisite is governments' willingness to disclose information about commitments (such as budgetary information) and the extent to which these commitments have been honored and targets achieved. This means that transparency and right to information legislation that contains specific provisions for SNGs, local processes, and local decisions is particularly important (World Bank 2009).

The engagement of citizens in social accountability mechanisms can focus on input, on monitoring of implementation, or on feedback. Citizens can give inputs into SNG decision-making processes through public council meetings, public hearings and consultations, and participatory planning and budgeting practices. They can also use citizens' charters, which are public agreements between citizens and service delivery providers that codify expectations and standards. Citizen monitoring of implementation can focus on contract procurement and implementation, projects (e.g., construction), and public expenditures. Mechanisms for citizen feedback include citizen report cards and other forms of service provision ratings, social audits, and citizen complaint and appeals boards. Digitalization has been transforming this field in numerous ways, providing new tools and affecting both the speed and scale at which communication and analysis can take place. With specific smartphone applications, for instance, citizens in several countries can lodge complaints to government bodies and track the status of their complaints.

A variety of accountability mechanisms—upwardly, horizontally, or downwardly oriented—have been implemented in Asia and the Pacific, often with the support of development partners. These include social audits, the creation of ombudsman positions, participatory budgeting, the use of performance-based grants, and the use of minimum service standards (MSS) as yardsticks for citizens to know what quality of services they should expect from SNGs. Such accountability mechanisms are not necessarily specific to a particular modality of decentralization. MSS could also apply to deconcentrated services, social audits could be applied to services delivered under all three modalities, and an ombudsman would look at state behavior and services regardless of the existing multi-level governance arrangements. Common to these mechanisms is the intention to give citizens effective ways to interact with public institutions, to strengthen what has been called the “demand side” of governance, and, in the context of devolution, to ensure the responsiveness of SNGs toward their constituencies.

In the international development and aid discourse, “social audit” has become the usual label for approaches and processes to build accountability and transparency in the use and management of public resources. Social audits are based on the premise that citizens want and have the right to know what the government does, how it does it, and how it impacts on them, and that the government has an obligation to be accountable and transparent to citizens.

Social audits rely on engagement from citizens and/or CSOs to demand accountability and transparency in the public policy and budget cycles, as can



be seen in citizen participatory audits in the Philippines (Jimenez & Suerte-Cortez 2019). They can be performed at the design, deliberation, implementation, and follow-up stages of these cycles, and a variety of tools can be used at each stage. These include, for instance, participatory budgeting, public expenditure tracking, citizen M&E of public service delivery, elections and legislative monitoring, strategic planning, participating in public commissions and hearings, citizen's advisory boards, and oversight committees. This long list makes clear that "social audit" tends to be a generic term for diverse approaches and practices that have certain characteristics in common, rather than being a specific method. One of these characteristics is cooperation between public sector officials and personnel and the citizens and CSOs conducting social audit activities. Social audit activities can take place at the local, intermediate (e.g., provincial), and/or national levels. Ideally, social audits strengthen the legitimacy of government and build trust between government and citizens (UNDP 2011:20).

*Ombudsmen* can play a key role by advising the government on the best ways to safeguard the public interest and by holding service providers accountable. As an independent institution, the ombudsman can extend its jurisdiction to include examinations of the terms of contracts between the government and private agencies. It can also have a role in systemic investigations, finding the root causes of maladministration in cases involving a large number of complaints. In many Asian countries, for example, ombudsmen help ensure quality public services by looking into issues such as inaction or unsatisfactory action by government departments regarding service delivery, the quality of outsourced services, the terms and conditions of outsourcing, the government's role regarding outsourced services, the need for service providers to issue service charters, and the provision of avenues for citizens' grievance redress. While ombudsmen usually operate at the national level, decentralization provides a new context to which ombudsmanship must be adapted. There are already examples of Asian countries, such as Cambodia, which have done just that (see Korm/Thun 2019). In 2008–2010, ADB funded a two-year project to strengthen the Asian Ombudsman Association (ADB 2011).

*Minimum service standards* (MSS) are not only a prescriptive approach which national governments use to ensure that SNGs focus on specific functions and services. They also define good performance and increase the accountability of SNGs, principally the upward accountability to national government. However, depending on the governance context and local voluntary initiatives, horizontal accountability to locally elected officials and downward accountability to local constituents can also be supported to varying degrees with this instrument. Indonesia, for instance, has been implementing MSS since the turn of the millennium, with many ministries adopting. Other challenges concerned funding and, in particular, the creation of the right financial, non-financial, institutional, and individual incentives to make the instrument work (Ferrazzi 2005; Ferrazzi 2011, Roudo 2014).

The introduction and practice of MSS captures important potential benefits of decentralization. It underlines the responsibilities of SNGs, stimulates accountability and transparency, and potentially helps to reduce variations in the quality of basic public services across regions. However, risks and unintended negative consequences can also emerge. SNGs usually lack sufficient own-source financial resources to finance MSS-compliant services; they must increasingly depend on transfers, thereby reducing local discretion and autonomy. Furthermore, national governments often control SNGs tightly when they implement MSS. They may give relatively little consideration to the SNGs' limited local human and financial capacity for which they themselves usually bear at least part of the responsibility without being held accountable. At the same time, MSS targets and indicators are often too ambitious. Where targets are not met, noncompliance with MSS can be used by national governments to reclaim certain powers that had been decentralized in the first place. In this way, MSS can be—contrary to the government's declared goal—a slippery slope toward political re-centralization.

Other instruments used to enhance accountability and improve performance in decentralized systems are *performance-based grants* (PBG) and *participatory budgeting* (PB).<sup>15</sup>

In Bangladesh for instance, the introduction of PBGs to the lowest tier of SNGs over three generations of reforms has led to significant improvement in development outcomes.<sup>16</sup> The average performance of participating SNGs in key areas such as revenue mobilization and preparation of five-year plans improved, and the active participation of citizens, especially poor and vulnerable women and men, in the implementation of the scheme increased. Community participation in planning and disclosure of budget resources were included in the list of minimum standards to be met, and performance indicators were set to promote community engagement, transparency, and downward accountability. These elements played a key role in enhancing local awareness and demand for development results (Balakrishnan 2019).

Some countries have developed wider, multidimensional social accountability systems. Cambodia, for example, has been implementing a Social Accountability Framework (SAF) since 2013 as part of the government's decentralization and deconcentration reform program (NCDD/CSOs of Cambodia 2014; ADB 2017). The framework consists of components that: (i) enhance citizens' access to information on standards and entitlements to services, budgets, expenditures, and performance; (ii) promote citizens' independent monitoring and assessment of public services and government performance through the use of multi-sector community scorecards, interface meetings, and joint accountability action planning; (iii) implement a training, mentoring, and coaching process for community facilitators, community-based organizations, commune and district level councilors and staff, and local public service providers to build capacity and promote sustained action; and (iv) provide a mechanism for lesson-learning and feedback about processes and results, including impact evaluation, process documentation, and audits. Focus areas are health centers, primary schools, and commune

administration. By early 2018, social accountability activities were implemented in 75% of Cambodia's provinces, 62% of its districts, and 56% of its communes (World Bank 2018). For the second phase of the National Programme for Sub-National Democratic Development (2021–2030), the intention is to strengthen and expand SAF implementation, including e-governance approaches to communication, participation, monitoring, evaluation, and citizen feedback on sub-national administrations' performance and service delivery.

## **5.6 Conclusion**

In the context of DLG reforms, measuring performance and promoting accountability are closely linked. Due to its specific features as a public sector reform, monitoring and evaluating decentralization poses particular challenges. This is mirrored in the limited progress most decentralizing countries have made so far in developing their own M&E systems for tracking the status, process, and effects of their reforms, sometimes despite considerable efforts. International development partners cannot fill this gap. They contribute to the growth of empirical evidence about decentralization reforms by commissioning studies and through their own evaluations, but these tend to assess primarily the effectiveness of the support provided and the specific instruments used. To move forward, requirements and expectations of country M&E systems should be adjusted to country realities, settling for “good enough” country M&E systems.<sup>17</sup> In addition, more consideration should be given to identifying the political and institutional incentives that drive politicians, bureaucrats, and other actors to support or oppose M&E efforts in contexts where decentralization reform is underway.

Dedicated, functionally limited accountability mechanisms are sometimes plagued by weaknesses similar to those of more comprehensive M&E systems. However, they can contribute importantly to both the achievement of decentralization reform objectives and the wider performance measurement and M&E effort. In particular, social accountability mechanisms that rely on civic engagement and citizen participation have great potential to promote empowerment, improve governance, enhance service delivery, and increase development effectiveness. Such mechanisms have been successfully applied in several countries and deserve to be more widely recognized and systematically replicated.

Ultimately, measuring performance appropriately and promoting accountability effectively are essential for conceptualizing road maps, and for implementing and adjusting decentralization strategies. This means, conversely, that weaknesses in these two areas are likely to be reflected in reform design flaws, with the risk of wider negative repercussions in reform execution. Both reformers and their international supporters need to be aware of this and draw the right conclusions in their approaches.

## Notes

- 1 This and the following sections draw generously from an earlier analysis prepared by the author for the *Development Partners Network on Decentralization and Local Governance* (DeLoG) (Bartsch 2015)
- 2 For a brief introduction on government public performance reporting, see Tryens (2016).
- 3 See Chapter 1.
- 4 See Chapter 4.
- 5 For more details, see the discussion on the political economy of decentralization reforms in Chapter 7.
- 6 This space can be filled with numerous initiatives to support gender equality, such as empowering women for local office, women quotas in local forums, inclusion of women in local planning processes, and forms of gender-responsive budgeting. However, progress in gender equality is not inherent in decentralization. Whether and how opportunities are being used depends, *inter alia*, on cultural factors, the compatibility with values of the respective society, women's determination to change their situation, men's level of resistance, and, in a developing country context, whether and how this is supported by international development partners.
- 7 Based on the Marrakech Action Plan for Statistics agreed at the Second International Roundtable on Managing for Development Results in 2004 (World Bank 2004), many countries have adopted such documents as guidance for further development of their national statistical systems.
- 8 The competent use of M&E information requires clear expectations on where and how M&E information can and should be used (e.g., in planning, policy or program development, decision-making, and budgeting) and the ability to incorporate M&E information into the normal process of business.
- 9 These include, *inter alia*, performance measurement schemes linked to incentives for SNGs to act in a transparent manner and demonstrate accountability, such as the "Seal of Good Local Governance" in the Philippines.
- 10 While Smoke's analysis for DFID covered Indonesia and the Philippines, his research for the EC also included brief case studies on Bangladesh, Bhutan, Cambodia, Nepal, Pakistan, Sri Lanka, Viet Nam, and Yemen.
- 11 Examples are the European Union (European Commission 2012), the Norwegian Agency for Development Cooperation (Norad 2008), the Swiss Agency for Development and Cooperation (SDC 2007), UNICEF (2016), and the World Bank (World Bank 2008).
- 12 The study edited by J. Rodden and E. Wibbels (2019), commissioned by the United States Agency for International Development (USAID), is another example of donor-funded structured reflection intended to foster learning and evidence-based decentralization programming, although it is not an evaluation in the strict sense of the term.
- 13 See Chapter 4 on sector decentralization and functional assignment.
- 14 Social accountability mechanisms are sufficiently gender-sensitive when they foster participation of women and men in ways that support women's empowerment and improve the social position of women (Bradshaw et al. 2016).
- 15 See Chapters 2 and 3 for a discussion of these instruments.
- 16 Core elements of the approach were a grant allocation modality, a performance assessment system consisting of both minimum conditions and an extended set of performance indicators, a training program on financial management and performance assessment, and a planning system to help SNGs prioritize the use of resources.

- 17 Similar to a debate on “good enough governance” launched two decades ago, it is time to start questioning the length and complexity of the “national M&E systems” agenda. Not all M&E deficits in a country need to be (or can be) tackled at once, and institution building and capacity development are products of time. “Good enough country M&E systems in decentralization” directs attention to the minimum requirements that are necessary to allow more progress to occur.

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# 6 Localizing the Sustainable Development Goals in Asia and the Pacific

*Rainer Rohdewohld<sup>1</sup>*

## 6.1 Introduction

The 2030 Agenda is often referred to as an integrated and transformative agenda that aims to address global challenges such as eradicating poverty, reducing inequalities, and achieving environmental sustainability. Inclusiveness of social and economic development, and the principle of “leave no one behind” are key ingredients of the agenda. Achieving the SDGs relies to a great extent on a “whole of government” and a “whole of society” approach which avoids fragmented and silo-based sector strategies and favors collaboration and coordination between relevant stakeholders.

To realize the universal aspirations of the 2030 Agenda, multiple levels of government must collaborate across sectors to ensure policy coherence across and at all levels of government. The 2030 Agenda’s framework resolution *Transforming Our World: The 2030 Agenda for Sustainable Development* clearly emphasizes that governments and public institutions “will also work closely on implementation with regional and local authorities, subregional institutions, international institutions, academia, philanthropic organizations, volunteer groups and others” (UN 2015, para 45).

The resolution builds upon lessons learned from earlier global agendas, such as the Local Agenda 21, adopted in 1992. This required local governments to consult with the local community, minority groups, businesses, and industrial organizations to develop, for instance, local environmental plans, policies, and programs. Localization was also promoted in the context of the Millennium Development Goals (MDGs) adopted in 2000. A review by the United Nations Development Programme (UNDP) and the World Bank of the lessons learned in the implementation of the MDGs highlighted, among others, the need for “recognizing and identifying the interrelatedness of development goals,” “system-wide institutional coherence and collaboration,” and “community mobilization” as critical elements for the acceleration and application of a multi-sectoral approach (UNDP/World Bank 2016:15). The assessment also pointed to the need for interventions at subnational levels in countries with decentralized governance structures (ibid.:22).

The introduction to this book noted that the 2030 Agenda and other global agendas (such as the 2015 Paris Agreement on Climate Change and the New Urban Agenda) have significantly changed the global perception of the role of subnational governments (SNGs) as they have been recognized as crucial stakeholders in achieving sustainable trajectories of social and economic development. Due to their proximity to citizens and their potential responsiveness to local needs and priorities, local governments play a vital role not only in the delivery of basic public services (such as water, education, and health care), but also in economic development, adaptation to climate change, urbanization, and enhancing gender equality.

The involvement of subnational levels of government in implementing the 2030 Agenda has consequently been acknowledged globally as a vital driver for achieving the 17 SDGs. The essential role of the local level is reflected, for instance, in SDG 5 (“Achieve gender equality and empower all women and girls”), SDG 9 (“Build resilient infrastructure, promote sustainable industrialization and foster innovation”), SDG 10 (“Reduce inequality within and among countries”), SDG 11 (“Make cities inclusive, safe, resilient and sustainable”), and SDG 16 (“Promote just, peaceful and inclusive societies and effective and accountable institutions at all levels”). The role of local governments is also implicit in most of the other goals and related targets. Sachs et al. estimated that approximately 65% of the 169 SDG targets require operationalizing through subnational and local governments (Sachs et al. 2019:9). The implementation of these goals requires effective, accountable, and participatory institutions, and places particular responsibility on SNGs. This is especially the case for SDG 11, which, as a stand-alone goal for sustainable cities and communities, recognizes sustainable urban and local development as a fundamental precondition of sustainable development.

The Global Task Force of Local and Regional Governments (GTF) has described SDG localization as “the process of taking into account subnational contexts in the achievement of the 2030 Agenda, from the setting of goals and targets, to determining the means of implementation and using indicators to measure and monitor progress” (GTF 2016:6). In essence, the localizing SDGs debate highlights the need for substantive linkages between national commitments and priorities on the one hand, and corresponding commitments and actions at the subnational level on the other.

Exactly what form the involvement of SNGs needs to take for achieving the SDGs is at the center of the international discourse on localizing SDGs and must be determined within the national context. This chapter elaborates on the concept of localizing the SDGs as it relates to core elements of political, fiscal, and administrative decentralization. The “enabling environment” for localizing SDGs, which is often promoted nowadays (see, e.g., UNDP 2021, UCLG 2019a) needs to be defined by looking closely at the political, legal, fiscal, and administrative arrangements which allow (or constrain) a meaningful and tangible contribution of SNGs to the SDGs. If SNGs do not have a role for a particular sector, the notion of “localizing SDGs” obviously does not apply.<sup>2</sup>

This chapter discusses the status of SDG localization in the region as of 2021 (Section 6.2) and outlines in detail our understanding of what constitutes an “enabling environment” for localizing SDGs (Section 6.3). This discussion is substantiated and illustrated by using the material from the five country chapters of this publication. Subsequently, the chapter discusses the implications of the COVID-19 pandemic on the localizing SDG discourse in the region (Section 6.4), and examines how the Asian Development Bank (ADB) is supporting and facilitating localizing SDG initiatives in its regional and country-specific operations (Section 6.5).

## **6.2 Localization in Asia and the Pacific: Status and Challenges**

The 2021 report by the UN Economic and Social Commission for Asia and the Pacific on the status of SDG achievement in the region (UN ESCAP 2021) indicates clearly that the Asia and Pacific region is not on track to attain any of the 17 SDGs by 2030. According to the report, maintaining the current trajectory would mean that the region may achieve less than 10% of the SDG targets. There are, of course, differences among SDGs and between individual countries. For example, there is progress on SDG 3 on health but a lack of progress on SDG 13 on climate change and SDG 14 on marine resources. Overall, however, the report concludes that the “Decade of Action” (as the current ten-year period until 2030 has been called) requires considerable and focused efforts by governments, civil society, and the private sector if the SDGs are to be achieved.

In many countries of the region, rapid urbanization has increased pressure on the capacity of SNGs to provide and expand basic public services such as transport, water, waste management, and housing (ADB 2014a, b). This also affects local land use planning and creates significant demands for public infrastructure. The impacts of climate change and disasters have strong effects on local communities and require adequate responses by SNGs. The region faces rising inequalities among and within countries,<sup>3</sup> as well as a growing and aging population.

Many Asian and Pacific countries have made progress in involving their SNGs in national SDG agendas and processes; for example, by increasing the space for SNGs to participate in voluntary national review (VNR) processes or by including them in national policy arenas on SDGs. However, progress has been uneven, and not always consistent.

An analysis by ADB in 2018 identified multiple and diverse ways of pushing a “localizing SDG” approach. Involving SNGs in the preparation of VNRs was recognized as one solid indicator for the degree to which SNGs have a voice in and contribute to national SDG agendas (ADB 2018b). The 2019 overview by the global association United Cities and Local Governments (UCLG) showed the diversity of localizing SDG approaches in Asia and the Pacific. The report highlighted frequent shortcomings or constraints, such as unclear mandates or divisions of labor between different layers of the government systems, relatively low levels of fiscal decentralization, weak legal and fiscal arrangements for local

governments to become more self-reliant and autonomous, and lack of coordination across multiple levels of governments to enhance service delivery (UCLG 2019a).<sup>4</sup> The report acknowledges that the

Asia-Pacific region's inherent complexity, size and diversity have made progress on localization uneven throughout the region. The challenges that impact these countries are massive and diverse; the range and complexity of multilayered levels of governance, plans, strategies and institutions vary so much across the region that it is impossible to define one standard roadmap where "one size fits all."

(ibid.:133)

Building on findings of a regional workshop organized jointly by ADB and others in April 2019,<sup>5</sup> UCLG highlighted three common reform areas needed for speeding up the localization of SDGs in the region:

- (i) *Governance reforms* (including effective decentralization policies and efforts to create and sustain vertical and horizontal coordination between and across government levels).
- (ii) *Financing reforms* (including enhanced subnational resources and improved frameworks for improved SNG borrowing).
- (iii) Wider *public management reforms* (including planning systems which are integrated vertically and horizontally, better resource management, and "monitoring efforts between national and sub-national governments") (ibid.:133).

These conclusions by UCLG already embraced core elements of what increasingly has been called the "enabling environment" for localizing SDGs.

### 6.3 Creating an Enabling Environment in Asia and the Pacific

While there is no single approach to SDG localization, guidance can be found in the overall aspirations of the 2030 Agenda itself. Among others, SDG 17 ("Strengthening the means of implementation and revitalizing the global partnerships for sustainable development"), target 17.14, calls on countries to "enhance policy coherence for sustainable development" as a means of implementation. This target speaks to the interconnectedness between the 17 SDGs and the benefits of synergistic actions among stakeholders and levels of government. Creating integrated, inclusive, and coherent approaches that enhance horizontal coordination between sectors and vertical integration between levels of government will also address the underlying principle of the 2030 Agenda of "leaving no one behind."

Related to action plans for the achievement of the SDGs, the concept of "policy coherence" has become increasingly important, focusing on eight building

blocks: (i) policy commitment and leadership, (ii) integrated approaches to implementation, (iii) intergenerational time frame, (iv) analyses and assessments of potential policy effects, (v) policy and institutional coordination, (vi) local and regional involvement, (vii) stakeholder participation, and (viii) monitoring and reporting (OECD 2018). In this context, coherent SDG implementation can be promoted through reforms that effectively integrate the SDGs into the mandates of SNGs and promote cross-sector collaboration at all levels. This requires adjusting and fine-tuning legal mandates for sector services and adequate institutional structures for delivering such services. It requires aligning decision-making procedures between and across sectors, creating joint policy arenas, and installing mechanisms that support the cross-cutting and integrative nature of the SDGs at all levels of government.

For instance, **Pakistan**'s institutional arrangements take into consideration vertical and horizontal policy coherence between the national (federal) and the provincial level, with increasing outreach to the local level. Provinces have started to develop plans, subnational policies, and legal measures which are aligned with the SDGs. This has been enabled through, among others, the establishment of the National Initiative on the Sustainable Development Goals, a multi-tier institutional coordination mechanism aimed at advancing progress on the SDGs at all levels of government. Seven SDG support units at the federal, provincial, and federally administered levels were set up to work closely with government counterparts and other stakeholders. The aim is to improve coordination and to provide technical support to government agencies (ministries and departments), including statistical offices. These support units also liaise with the private sector, civil society and international organizations. To ensure alignment at the local level, SDG focal points were nominated in each district (Government of Pakistan 2019).

**India**'s VNR 2020 also describes an integrated and coherent approach to localizing the national SDG agenda between the national (federal), state, and district level. India's approach includes sensitization and awareness raising, the formulation of state and district indicator frameworks, improvement of data ecosystems and information sharing through dashboards, and institutional arrangements ("SDG Coordination Centre") (Government of India 2020).

As shown in Chapter 9, **Indonesia** has established an elaborate system of institutions and interlinked planning processes which are meant to ensure policy coherence between the national and subnational levels, and between the various sectors, in pursuing the national SDG agenda.

The term "enabling environment for localizing SDGs" is increasingly being used in a variety of contexts. While it would still be premature to speak of a consolidated and universally accepted understanding of what constitutes an "enabling environment," we would argue here that there is an emerging consensus about its key elements.

The assessment templates used by the Cities Alliance and UCLG Asia Pacific in 2018 for their rating of a "city enabling environment" in Asia did not specifically address the issue of localizing SDGs. However, the assessment criteria

applied point clearly to the need to examine the legal, political, and fiscal arrangements for SNGs in a multi-level governance system.<sup>6</sup>

In early 2021, UNDP's Regional Hub for Asia and the Pacific proposed a set of five “enablers” for accelerating the localization of SDGs in the region:

- (1) **Policy and institutional framework**, which includes “the adoption of laws, regulations and plans to ensure policy coherence, implementation as well as coordination and cooperation among all relevant stakeholders...corresponding institutional mandates and capacities to deliver on the plans [and] ... national and local oversight institutions that monitor the implementation of SDG-related strategies and ensure accountability for the achievement of the SDGs” (UNDP 2021:4).
- (2) **Data ecosystems** which “need to be strengthened in order to respond to the additional demands of prioritizing, monitoring and reporting on SDG indicators” (ibid.:4).
- (3) **Multi-stakeholder engagement**; this will require “the sustained efforts of all stakeholders—civil society, private sector, academia, individuals, governments, development partners—to work together to develop and implement initiatives” (ibid.:5). New service delivery models, regulatory frameworks and fiscal incentives for private sector engagement and investments, and platforms to support youth and women entrepreneurship at the local level are seen as particularly important.
- (4) **Financing** as an enabler “calls for mobilizing public resources domestically and aligning private sector investment with the SDGs, as well as promoting equity, efficiency and effectiveness in the use of resources ... new types of financing mechanisms are available for SDG achievement” (ibid.:5).
- (5) **Innovation** is seen as a fifth and cross-cutting factor which influences all the other four enablers as new approaches (technology, social innovations, and different working styles in the public sector such as the use of “collaborative spaces”) are needed to ensure the achievement of the SDGs by 2030.

Following the conceptual approach of ADB's 2020 e-learning course on *Decentralization, Local Governance, and Localizing SDGs in Asia and the Pacific*,<sup>7</sup> we examine the enabling environment for localizing SDGs through the specific lens of legal, political, fiscal, and administrative arrangements in the context of decentralization reforms. Here, we propose four critically important building blocks for ensuring that SNGs can make a tangible and meaningful contribution to achieving the SDGs (see Figure 6.1):

- Clearly defined functions and responsibilities for public services in those sectors or sub-sectors devolved to the SNGs.
- SNG participation in national policy arenas such as SDG commissions and VNR processes.
- Planning and budgeting systems tailored to the functional jurisdiction of the SNGs and reflecting or incorporating the national SDG priorities.

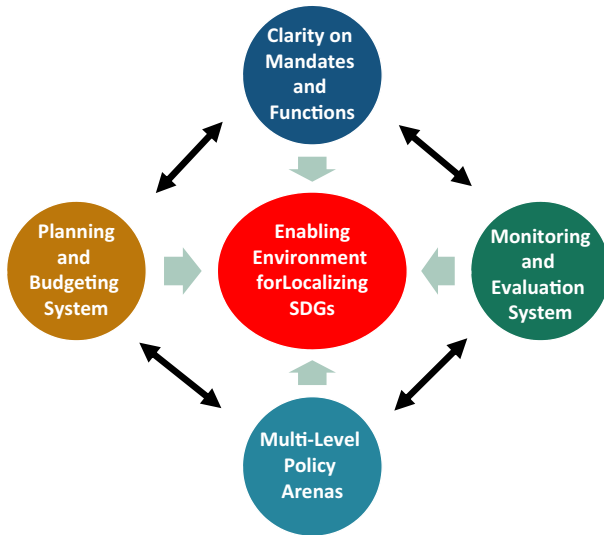


Figure 6.1 Core Elements of the Enabling Environment.

Source: Author.

- Monitoring and evaluation (M&E) and data systems which capture local SDG achievements and support national monitoring processes.

In the following, we explore each of these four elements in more detail.

(i) *Clearly defined functions and responsibilities of SNGs for sector services*

The challenges that the 2030 Agenda aspires to address, such as poverty eradication, reducing inequalities, and achieving environmental sustainability, directly concern and impact SNGs. SNGs play different roles in policymaking and delivering services that are relevant for achieving sustainable development, such as contributing to sustainable cities, social inclusion, and disaster risk reduction. Although their responsibilities vary across countries, SNGs are often in charge of key service areas such as education, health, transportation, waste management, urban and territorial planning, local economic development, and social welfare.

The 2019 edition of the *World Observatory on Subnational Finance and Investment* observed that SNGs account for nearly a quarter (24.1%) of total public spending, and more than a third (36.6 %) of total public investment. Education, social protection, general public services, and health are primary areas of SNG spending, and these have close links with multiple SDGs (OECD/UCLG 2019). However, to discharge their functions effectively, the legal mandates of SNGs vis-à-vis the other levels in the multi-level governance system, and the modality of decentralization applied in the particular sector, need to



be defined without ambiguity and accompanied by the required institutional, human, and fiscal resources. As UCLG pointed out in 2019, “lack of clarity about local governments’ legal mandates and areas of jurisdiction in some countries needs to be addressed through proper assignment of functions between levels of government” (UCLG 2019a:131). For instance, it has been observed that in Armenia “there is no clear definition of the competences of ... local authorities” (GTF 2020:19). The country chapters in this publication provide further examples where lack of clarity of SNG mandates restricts SNG contributions to the achievement of SDGs (see below).

Robust functional assignment processes<sup>8</sup> are therefore an important element of creating an enabling environment for SDG achievement—not least in countries which apply more than one modality of decentralization, such as Pakistan or Cambodia.

## (ii) *Participation in policy arenas*

Many countries have established institutional structures and processes for coordinating the implementation of the SDGs, and for monitoring, reviewing, and reporting. Most governments apply the so-called “whole of government” and “whole of society” approach to engage stakeholders in mainstreaming the SDGs across and at all levels of government.

A recent comparative analysis by the Global Forum for National SDG Advisory Bodies identified important pathways for establishing national SDG advisory bodies. These include inter-ministerial cooperation, collaboration with institutionalized stakeholder groups and their networks, positioning the advisory body close to the center of government and giving it an official function for policy advice, and having an independent secretariat with adequate resources and capacities (Global Forum 2021). Associations of SNGs clearly fall in the category of “institutionalized stakeholders.”

Some countries have designed new institutions for the 2030 Agenda. **Nepal** has established an SDG National Steering Committee, while **Bangladesh** uses an Inter-ministerial Implementation and Review Committee linked to the Prime Minister’s Office (GTF 2020:35). **Pakistan** and others use existing bodies, such as planning commissions or national economic councils. **Georgia** has reconstituted an Inter-Agency Council for Sustainable Development Goals with senior government officials as its members; working groups under the Council have representatives from civil society and the private sector as participants. It provides strategic guidance in relation to SDG implementation, is responsible for developing the national development strategy and integrating the SDGs into national policies, and plays a key role in monitoring efforts (Global Forum 2021:104).

The degree to which SNGs and their representatives are included in such bodies (or “policy arenas”), and have a voice in the deliberations and decisions of these bodies, indicates whether localization of SDGs is taken seriously, or whether the 2030 Agenda is regarded as business of the central government level. Participation in SDG institutional structures can enhance the articulation of local



needs and priorities and support the alignment of SDG efforts among multiple levels of government.

The 2021 report of the GTF to the High-level Political Forum (HPLF) shows that 21% of countries reporting to the HPLF in 2021 had a high or medium level of SNG participation in national SDG coordination mechanisms, compared to 29% for the period 2016–2020; 28% were reported to have low SNG participation, compared to 21% in 2016–2020; 44% were reported to have no SNG participation in such mechanisms, the same figure as in 2016–2020 (see Table 6.1). For the period 2016–2020, the Asia and Pacific region was below the global average regarding high or medium level of SNG participation (19% and 29% respectively); with 45% it was slightly above the global average of 44% in the “no participation” category. In the assessment of the GTF, “these figures show a decrease in participation” which could “threaten achievement of the SDGs at the local level” (GTF 2021:38).

Obviously, these figures say little about the exact form and effectiveness of SNG involvement in such coordination mechanisms: are they just invited to listen? Do they have a voice in decision-making? Is the opinion of SNGs taken seriously by the other governmental stakeholders and does it influence the outcome of deliberations? The 2020 GTF report and UCLG’s 2019 GOLD V report on *The Localization of the Global Agendas* (UCLG 2019a) give ample examples of the diversity of approaches taken by each country.

Another proxy indicator for the degree of SNG involvement in shaping national SDG agendas and priorities is their role in the preparation of the VNRs which countries submit to the HPLF. VNRs form a fundamental part of the follow-up and review framework of the 2030 Agenda. Central to the reviews are the core principles of the agenda such as universality, “leaving no one behind,” integration, inclusiveness, and ownership (UN DESA 2018a). SNGs, along with civil society, the private sector, and other stakeholders should therefore participate closely in the review process and contribute to consultations and the drafting of the report (UCLG 2019b).

The GTF analysis of the annual VNRs includes an examination and assessment of where and to what extent SNGs of the submitting countries were included in the preparation of the reports. Between 2016 and 2021, a total of 248 VNRs were submitted. For 97 VNRs (39%), a mid- to high-level of SNG consultation was reported; for 55 VNRs (22%) the level of SNG consultation was rated as low, and in 82 cases (33%) no consultation could be found (GTF 2021:28, Table 3.1).<sup>9</sup>

For the Asia and Pacific region,<sup>10</sup> the 2021 reporting showed an increase in SNG involvement in the preparation of VNRs: 44% of the submitting countries reported a “medium/high degree” of consultation (as compared to 31% for the 2016–2020 period), 22% reported a “low degree of consultation” (2016–2020:33%), and 22% of the submitting countries reported no SNG consultation (2016–2020:24%) (GTF 2021:28, Table 3.2).

The term “consultation” in the preparation of VNRs needs to be defined in more detail for each country as there are wide differences between weak and

Table 6.1 Participation of Subnational Governments in National Policy Arenas (2016–2021)

	Total Number of Countries		Mid/High Participation		Low Participation		No Participation		No Elected SNG/No Information	
	2016–2020	2021	2016–2020	2021	2016–2020	2021	2016–2020	2021	2016–2020	2021
World	205	43	60 (29%)	9 (21%)	43 (21%)	12 (28%)	91 (44%)	19 (44%)	11 (5%)	3 (7%)
Asia-Pacific	42	9	8 (19%)	2 (22%)	10 (24%)	1 (11%)	19 (45%)	5 (56%)	5 (12%)	1 (11%)
Eurasia	9	1	2 (22%)	0	3 (33%)	0	3 (33%)	1 (100%)	1 (11%)	0

Source: GTF 2021:37 (Tab.3.3). “Number of countries” refers to the number of countries submitting a VNR. The definition of what constitutes “Asia-Pacific” and “Eurasia” differs from the regional groupings used by ADB.

strong forms of consultation. The GTF 2020 report defined “consultation” as ranging from

from being part of, or contributing to, the reporting unit, ... to presenting their own separate contribution to the report<sup>11</sup> [or] ... attending meetings, conferences or workshops to debate the content and structure of the report.<sup>12</sup>  
(GTF 2020:26)

Involvement of SNGs and their associations in national policy arenas and national reporting has been increasingly accompanied by subnational reporting in the form of voluntary subnational reviews (VSRs) and voluntary local reviews (VLRs). Such local and subnational reviews not only complement national reporting efforts; they are also a means to assess local progress on the SDGs, share experiences, engage citizens, and strengthen accountability in cities and communities. According to the GTF, such subnational reporting initiatives “have had another remarkably positive outcome: the increasing number of VNRs explicitly recognizing the role of [local and regional governments] in SDG localization” (GTF 2021:14).

VSRs are used either as inputs for the national reports, or as stand-alone reports which provide information and perceptions on SDG achievements at the subnational level. VSRs strengthen the localization dimensions in the VNRs and empower SNGs by collecting evidence of SDG localization and advancing concrete proposals to boost local action (GTF 2020:27). In Asia, **Nepal** in 2020 finalized a review of SDG implementation from a local perspective (Adhikary 2020, GTF 2020:44), while **Indonesia** released a VSR in mid-2021 (UCLG-ASPAC et al. 2021). According to the GTF, by mid-2021 there were 15 VSRs from 14 countries, representing a total of 16,000 SNGs (GTF 2021:14).

The Institute for Global Environmental Strategies (IGES) sees VLRs as “a tool for local and regional governments to periodically follow-up and review their progress and share their experiences and challenges in localising the SDGs” (IGES 2020:2). VLRs are prepared by individual local governments. Examples from Asia and the Pacific include Suwon (Republic of Korea), several Japanese cities (such as Shimokawa, Toyama, Hamamatsu, & Kitakyushu); Taipei, China; Cauayan City, Philippines; Deqing, People’s Republic of China (PRC); and Surabaya, Indonesia. A review by the IGES in early 2020 counted 15 VLRs globally (ibid.:2); according to the GTF, this number reached more than 100 by mid-2021 (GTF 2021:14). While the format, scope, and depth of information of the early VLRs differed substantially (UCLG & UN Habitat 2020), the UN system and organizations like UCLG have started to roll out guidelines and support material to guide local governments in the preparation of their VLRs. This may lead to a more standardized and comparable format (UCLG and UN Habitat 2021, UN ESCAP 2020). The UN Department of Economic and Social Affairs (UN DESA) has suggested guiding elements for VLRs, such as an explanation of the methodology, a process for preparing the review, a chapter on “policy and

enabling environment,” information on progress on goals and targets, and conclusions and recommended next steps (UN DESA n.d.).

(iii) *Planning and budgeting systems*

Increasingly, the SDGs are applied as a framework for guiding development planning and budgeting processes at the national and local level. Aligning multi-level government planning processes can greatly support policy coherence and ensure alignment between the national and local planning and budgeting decisions that contribute to sustainable development.<sup>13</sup>

At the local level, integrating the SDGs into annual or medium-term development plans and corresponding budgets can help identify medium- to long-term priorities. Using the SDGs as a framework for guiding local policy planning processes can support strategic directions, help in developing roadmaps and action plans, and emphasize the required organizational and institutional structures. Local plans can include local priorities, baseline diagnoses of the socioeconomic and environmental context, strategic projects, budget and financial strategies, implementation timelines, cooperative governance mechanisms, and monitoring and assessment tools, including local and regional indicators aligned with the indicators established in the 2030 Agenda (GTF 2016).

**Indonesia** has established a comprehensive system of integrating horizontal and vertical planning processes, although observers have raised concerns that the complexity of the system limits its effectiveness.<sup>14</sup> According to Indonesia’s 2019 VNR, the country’s progress on SDG localization is due to a strong regulatory framework, high levels of stakeholder ownership, a robust set of tools for localizing the SDGs, and the mainstreaming of the SDGs into national and subnational development agendas (Government of Indonesia 2019). Indonesia’s Presidential Decree No. 57/2017 requires the formulation of national and regional actions plans on the SDGs, and the mainstreaming of the SDG agenda into the regular short- and medium-term development planning documents. Based on this decree, many provinces in Indonesia have developed SDG action plans and formalized them by official decree. Indonesia’s 2019 VNR highlighted the example of East Nusa Tenggara province, which formulated its regional mid-term development plan (*Rencana Pembangunan Jangka Menengah Daerah/RPMJD*) 2018–2023 based on SDG priorities and used SDG indicators to measure progress in achieving the plan’s targets (ibid.:41f). Indonesia’s 2021 VNR reported that 29 of Indonesia’s 34 provinces had prepared their SDG action plans and the other five are close to finalizing theirs (Republic of Indonesia 2021).

In the **Philippines**, SDG localization is facilitated through regional development plans (RDPs) “which translate the national development plan to regional strategies and priorities ... RDPs are the main implementation mechanism of the SDGs at the regional and local levels” (Government of the Philippines 2019:13). Guidelines for the localization of the national development plan and its SDG targets were formalized jointly by the Department of the Interior and Local Government and the National Economic and Development Agency (NEDA) in

2018<sup>15</sup> and are expected to ensure “vertical linkage of national, regional, and local priorities” (ibid.:47). A 2020 report summarized that the Philippine planning and budgeting systems “are well placed in terms of its capacity to support the achievement of the SDGs” (Manasan 2020:31).

In addition to the development planning process, budgeting processes at the national and subnational levels can be crucial entry points for aligning national and subnational SDG priorities. The linking of planning and budgeting has been identified as a crucial factor for achieving the SDGs, as “the SDGs provide a map of sustainable development that can facilitate integration of actions across sectors, levels of government and actors, thus promoting policy coherence” (UN DESA 2019:87).

There are two interrelated aspects here:

- (i) *Availability of adequate fiscal resources* in line with the legal mandates of SNG as they relate to specific SDGs is a key requirement for meaningful SNG contributions to the achievement of national SDG priorities. In the language of fiscal experts: if the revenue assignments for SNGs (i.e., own-source revenues, fiscal transfers, or borrowing<sup>16</sup>) are insufficient in relation to their SDG-related expenditure assignments, the ensuing “unfunded mandates” will mean that localizing SDG will be hampered and limited.<sup>17</sup>
- (ii) Provided that sufficient fiscal space is given to SNGs, the *actual budgeting processes* at subnational level (i.e., the setting of spending priorities and the quality of financial management at local level) will have a critical impact on SDG achievements. In setting priorities, we need to keep in mind the issue of elite capture, which can influence the degree of responsiveness of the SNG.<sup>18</sup> The budgeting process is influenced by the degree of fiscal autonomy granted to the SNG (e.g., are fiscal transfers in the form of general or unconditional grants), and by the financial management capacity at the subnational level, as fully aligning budgets to the SDGs requires significant fiscal administrative resources. As our treatment of fiscal decentralization has pointed out, there are additional potential pitfalls in the implementation of fiscal arrangements, like delayed or irregular transfers from the national/central level.

While not explicitly related to the issue of SDGs or localizing SDGs, certain approaches and methodologies in the context of “good local governance” can have a focused and significant impact on achieving SDGs at the subnational level, such as participatory budgeting. There have also been recommendations how to strengthen fiscal management capacities of SNGs in the context of the 2030 Agenda, including (i) “strengthening national and subnational institutional frameworks to include formal and clear assignment of functions and revenue generation responsibility,” (ii) “transparent and accountable financial management,” (iii) “incentives to function effectively,” (iv) “predictable and flexible intergovernmental transfers,” and (v) “access to sustainable long-term finance, commercial finance, and public- and private partnerships” (UN DESA 2018b:20).

*(iv) Data systems, data collection, and monitoring at the local level*

Vertical integration of data systems, data collection at the local level, and the use of disaggregated data are critical for monitoring the SDGs and for enabling evidence-based policy formulation. The 2030 Agenda is monitored and reviewed using the global indicator framework (GIF), with a set of indicators developed by the Inter-Agency and Expert Group on Sustainable Development Indicators. The GIF covers all the SDGs and the 169 indicators and facilitates global monitoring of the SDGs. Countries can supplement the GIF with nationally and/or locally defined indicators reflecting their national or subnational sustainable development priorities. Monitoring the SDGs at the national and subnational levels requires significant resources. It is essential to ensure the availability of disaggregated data<sup>19</sup> and to monitor disparities and inequality between groups and individuals over time. SDG localization and localized data collection and monitoring is particularly important to ensure no one, and no territory, is left behind. In this regard, SNGs are in a good position to identify, meet, and monitor the needs of the local population and vulnerable groups, and to contribute to territorial cohesion.

Subnational data collection is required for evaluating and reviewing national plans and their progress on the SDGs, and for prioritizing and monitoring progress of subnational SDG implementation. This requires adequate statistical capacity and mechanisms for collecting disaggregated data at the local level. Subnational indicators also need to be developed to measure the progress of SDG implementation at the local level.

Experience shows that local SDG data collection and data initiatives can promote broad stakeholder engagement and enhance inclusive SDG implementation at the local level. For instance, local efforts in East Java, Indonesia were initiated to support the elimination of child marriage (SDG target 5.3). With the support of ADB, local governments and civil society in East Java have been developing dashboards on child marriage and related indicators. The dashboards, which are publicly available at the SNG website, enable a better understanding of the child marriage situation in the districts. Based on the information obtained, awareness-raising material to help end child marriage was developed (ADB 2020a).<sup>20</sup>

While local SDG data and monitoring efforts are still a work in progress, various initiatives have emerged in Asia and the Pacific in the form of guidelines, reporting mechanisms, and the alignment of national and local data collection efforts. In the **Philippines**, the vertical linkages of development plans at national and subnational level include results matrices to measure the progress of programs and projects related to the SDGs (Government of the Philippines 2019). **Indonesia's** system for monitoring SDG progress from the local to the national level is explained in Chapter 9. The **PRC** is developing a comprehensive monitoring system to enable local monitoring, with a pilot project in the Deqing County (UCLG 2019a:122). Launched in 2017, the project aims to set an example for measuring overall progress on the SDGs using statistical and geospatial information in compliance with the GIF.

There is a growing realization that statistics-based M&E systems need to be complemented by social or community-based monitoring and other, non-conventional methods of assessing progress and results. The Community-Based Monitoring System (CBMS) of the **Philippines** is such an example; it complements the existing national data ecosystem by addressing data gaps for better needs identification, more comprehensive analysis, and design of appropriate programs and interventions. Initially developed for tracking progress on the previous MDGs, it has been improved further to track social and economic progress at the community and local government level and, with the support of UNDP, to track progress on achieving the SDGs (CBMS Network Office 2018). The most recent CBMS questionnaire can track 39 SDG indicators and provides a wide range of disaggregated data by gender, location, age, etc. (Reyes 2021).

Improving national (and subnational) data systems remains an important area of support by international development partners, such as ADB and bilateral organizations. The UN's 2019 SDG Report indicated that many countries in the Global South either did not have a national statistical plan or lacked the funding to implement such a plan. The report showed that official development assistance (ODA) targeting data ecosystems in 2019 “was still insufficient to satisfy data and statistical demands created by the SDGs,” and that “to meet statistical capacity building objectives by 2030, current commitments to statistics—0.33% of total ODA—need to double” (UN 2019:57).

A comparative analysis of the five countries covered in this publication (Cambodia, Indonesia, Mongolia, Nepal, and Pakistan) (see Table 6.2) gives a rather mixed and diverse pattern of the enabling environment—not unlike the overall assessment by UCLG mentioned earlier (UCLG 2019a):

- While Indonesia and Nepal fare rather well in terms of defining functions for the subnational levels, Cambodia (which still needs to operationalize its latest transfer of functions to districts and municipalities), Mongolia, and Pakistan are lagging behind. Unless service responsibilities of SNGs, which are directly linked with SDGs, are clearly assigned, the debate on “localizing SDGs” is devoid of meaning.
- Only Nepal strongly and convincingly involves SNGs and/or their associations in national SDG policy arenas. The other four countries do report consultations with SNG (for instance, in the preparation of VNRs), and Indonesia more recently has undertaken encouraging initiatives like formulating a VSR. Still, the overall impression remains of national governments setting the parameters, and the SNGs falling in line as best as they can.
- Planning and budgeting arrangements in Indonesia and Nepal allow SNGs to integrate SDGs in development planning, budgeting, and budget execution. Cambodia has an enormous opportunity to do the same, once the transfer of sector functions to districts and municipalities in late 2019 is followed by changes in the fiscal transfer arrangements and the framework for subnational financial management. Mongolia has not advanced much in terms of giving SNGs reasonable fiscal space; while in Pakistan, local governments struggle

Table 6.2 Comparing the Enabling Environments for Localizing the Sustainable Development Goals

<i>Core Elements of an Enabling Environment</i>			
	<i>Clearly Defined SNG Functions</i>	<i>Participation in Policy Arenas</i>	<i>Planning and Budgeting Processes</i>
<i>Cambodia</i>	<ul style="list-style-type: none"><li>• C/S: “general mandate” and small but defined service functions.</li><li>• Districts/municipalities: substantial transfer of sector functions in December 2019 still to be operationalized; further fine-tuning of functional assignment required.</li><li>• Provinces: ongoing shift from service delivery to oversight, supervision, coordination.</li></ul>	<ul style="list-style-type: none"><li>• Rather limited: consultation in formulation of 2018 SDG framework and in the formulation of 2019 VNR.</li><li>• No formal membership of SNG associations in national SDG bodies.</li></ul>	<ul style="list-style-type: none"><li>• Limited fiscal space of SNGs; very modest OSR; use of transfer grants for administrative expenditures; dominance of deconcentrated sector funds in service delivery; limited SNG autonomy in budget execution.</li><li>• Formalized planning system at SNG level (e.g., five-year development plan, three-year rolling investment program, medium-term expenditure framework, annual budget) but does not yet show linkages to national SDG priorities.</li></ul>
			<i>Data Systems/ Monitoring Systems</i>
			<ul style="list-style-type: none"><li>• Dominance of national level in data collection/data management.</li><li>• Limited capacity of SNG in generating and using data.</li><li>• Limited availability of locally disaggregated data.</li></ul>



## Indonesia

- Significant and relatively well-defined functions for the level of districts/cities.
- Concurrence of district functions with more recently set village functions.
- Provinces: oversight and coordination (emphasizing the role of the governor as representative of central government), with some sector functions—bolstered in 2014 recentralization measures.
- Centralized institutional arrangements with limited participation by SNGs.
- Mandated coordination structures at provincial and district/city levels (e.g., for addressing SDGs).
- More prominent role of provinces due to the double function of the governor as representative of the central government.
- Involvement of SNG associations in formulation of 2021 VNR.
- Formulation of VSR in 2021.
- Sophisticated planning system; well aligned with the national SDG agenda.
- Indicative nature of plans.
- SDG-specific plans prepared at provincial level, with district/city participation, but unclear linkage to regular planning.
- Weak links with budget planning.
- Substantial fiscal space and autonomy in budget execution for districts and cities.
- Centralized approach (“One Data”) with national development planning agency (BAPPENAS) at the helm.
- Limited availability of locally disaggregated data.

## Mongolia

- Modest functions but not always well defined; permissive or mandatory character unclear.
- Respective roles of the two subnational tiers also not always clear.
- Plethora of sector laws (aside from the Budget Law) carrying responsibilities for SNGs can lead to local uncertainty over roles and functions.
- Functional assignment process ongoing but unclear if there is real national commitment to implement the recommendations.
- Dominance of delegation and deconcentration as modality of decentralization.
- Overall limited scope for central–local policy consultation.
- SNG association weak and politicized.
- Little budgetary discretion of SNGs over their share of almost 30% of public spending as SNG spending is subject to detailed central adjustment (even for OSR).
- Limited local budget prioritization and tendency for “wish lists” due to lack of advanced budget ceilings.
- Sector capital budgets (aside from Local Development Fund) entirely under central control, which undermines quality local investment planning.
- Local budget approval more a “rubber stamp” act than genuine local decision.
- Substantial fiscal space for SNGs by means of OSR and transfers.
- SNG autonomy in budget execution.
- Strong alignment of planning and budgeting systems with the national SDG agenda.
- Diversity of reporting and monitoring lines (Cabinet Secretariat, MOF, sector ministries) for the different tiers of SNG with limited horizontal sharing between ministries.
- Data mostly not disaggregated (e.g., budget and other data for the upper SNG tier [*aimag*] includes data from the tier below [*sum*]).
- Disaggregated data from the lower SNG tier tends to remain only with the upper SNG tier and is not easily accessible.
- Existing M&E system is being developed further, with efforts to strengthen M&E at subnational level.
- Multi-stakeholder approach in SDG monitoring and reporting.

## Nepal

- Comprehensive conceptual and legal clarification, but operationalization at SNG level still unsatisfactory.
- Focus of service delivery on districts and municipalities.
- Strong involvement of local government associations in national bodies and in the preparation of VNRs.
- Formulation of VSR in 2020.
- Establishment of SDG bodies at provincial and local levels.

<b>Pakistan<sup>a</sup></b>	<ul style="list-style-type: none"> <li>• Differ between provinces, but overall not well defined.</li> <li>• Dominance of provincial administration in service delivery.</li> </ul>	<ul style="list-style-type: none"> <li>• Absence of elected local representatives since 2020 limits involvement of SNG representatives in SDG processes.</li> <li>• Even before, SNG involvement in policy arenas rather limited.</li> </ul>	<ul style="list-style-type: none"> <li>• Limited fiscal space for SNGs (small OSR, less performing fiscal transfer systems).</li> <li>• Limited autonomy in budget execution.</li> <li>• Depending on legal framework of each province, strong role of provincial government in services delivery (and therefore planning and budgeting).</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of locally disaggregated data.</li> <li>• Weak capacities at subnational level for data gathering and data interpretation.</li> </ul>
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Source: Author's compilation (based on country chapters).

Note: C/S: commune/*sangkat*; OSR: own-source revenue; VNR: voluntary national review; VSR: voluntary subnational review.

<sup>a</sup> As detailed in Chapter 12, the four provinces of Pakistan have diverse political, legal, and fiscal arrangements for their local government systems. The table provides a rough summary of the existing situation.

with low own-source revenue and less reliable and adequate fiscal transfer systems. Until new local elections are held in all provinces of Pakistan, there are no elected bodies in place to establish local priorities and provide inputs to the national and provincial SDG agendas.

- All countries have limited capacity to produce locally disaggregated data, although efforts are notable in Nepal and Indonesia.<sup>21</sup> SDG data ecosystems and the institutional capacity of SNGs to generate and use local data seems to be by the far weakest of the four elements of an enabling environment discussed here.

## 6.4 COVID-19: Impacts and Implications

The COVID-19 pandemic has had severe social and economic impacts in the region, even though observers rated the region's responses to the pandemic more effective than those in other parts of the world (Sachs et al 2020:vi). Estimated economic losses worldwide reached USD 4.8 trillion to USD 7.4 trillion in 2020, with developing Asia accounting for about 28% of the total. By the end of 2020, some 78 million more people in the region had found themselves below the USD 1.90-a-day extreme poverty line (ADB 2020b). Implications of this loss include an increase of the maternal mortality ratio in 14 Asian and Pacific countries, an additional 636 million people pushed into what is called "multi-dimensional poverty," and a loss of more than USD 1.0 trillion of labor income in 2020 alone. More than 800 million informal workers were affected by lockdown measures in the region, and "nearly half of the Asia-Pacific countries with data experienced negative economic growth worse than the projected -4.4 per cent global growth in 2020" (UN ESCAP 2021:xii). COVID-19 has put tremendous pressure on public finances as governments struggle to provide relief to individuals, and subsidies and financial support to the private sector. Governments in the region have mobilized an estimated USD 1.8 trillion or 6.7% of GDP to finance response and relief measures (ibid.:xii).

SNG finances have been affected significantly by the pandemic. A December 2020 survey of 33 cities and regions from 22 countries across all continents provided evidence on the "scissor effect" of decreasing revenue and increasing expenditure. On average, cities and regions reported a 5% increase in expenditure and around a 10% decrease in revenue, with tariffs and fees (which traditionally form a crucial element of local own-source revenue) hit by a 22% decrease on average. More than 60% of the SNGs reported a temporary suspension of capital investments (UCLG et al. 2021a:2).

Beside the macroeconomic and fiscal implications of COVID-19, there are socioeconomic and potentially political implications which are more difficult to capture and extrapolate. The crisis has shown the precarious situation of workers in the informal sector, as illustrated by the fate of migrant workers in India and elsewhere. It has illuminated existing weaknesses in delivering essential public services, many of which continue to be unavailable for significant proportions of the population, contrary to the 2030 Agenda's principle of "leaving no one behind."

Health systems have been stretched to their limits, water and sanitation services have often been unable to provide the service standards needed to fulfill the recommended hygiene and sanitation behavior, and social protection arrangements needed to be expanded significantly.

Responses to the crisis have also tested the resilience and functionality of existing arrangements in multi-level governance systems, be it the clarity of mandates of each level (national, provincial/state, and local), the distribution of revenue sources, the effectiveness of existing coordination and information sharing systems, or the functionality of oversight arrangements to ensure compliance by subnational authorities with national-level instructions and policies. All these factors have an immediate and significant effect on progress toward achieving the SDGs by 2030.

Research on multi-level responses to the pandemic in ten countries across the world (including Asian countries such as the PRC, Indonesia, Pakistan, the Philippines, and Singapore) showed a high degree of interdependence between levels of government in realizing each stage of the response to the pandemic. Further, it highlighted the ability of SNGs to make significant contributions by continuing to provide essential public services and by being “innovative and relevant” in their responses, despite the vagueness of the legal framework. It also confirmed the importance of SNGs in communication and trust-building due to their proximity to communities and people. While coordination between levels of government was shown to be essential, the country cases indicated that political leadership is equally important. Limited financial resources and restricted access to additional fiscal resources curtailed the ability of SNGs to widen their responses (Ferrazzi et al. 2020).

The pandemic has underlined the importance of effective and well-performing SNGs, which have been at the front line of containment and relief measures. SNGs have been enforcing restrictions on movement and assembly, and monitoring and supervising the lockdown of economic activities such as shops, markets, and informal sector activities. They have been pushing for hygiene and sanitation measures, such as disinfecting public places, and have been instrumental in sharing information and raising awareness about the nature and potential risks of the disease. SNGs implemented immediate relief measures, such as organizing innovative ways of bringing food to consumers in lockdown or providing cash payments to citizens and small to medium size enterprises (SMEs).<sup>22</sup> All this has shown again the significance of subnational levels in delivering public services, promoting economic development and public investment, and aligning actions of the public sector with the needs and priorities of local communities.

In **India**, the state of **Kerala** has frequently been mentioned as a good example for using the comparative advantages of local governments in responding to a pandemic (or any other form of disaster). A well developed and decentralized public health system, established participatory planning mechanisms (“people’s planning”), and local control over financial resources have contributed to the responsiveness of local governments which, after nearly three decades of decentralization reform, have become an essential part of the state’s public service

delivery system. The “social capital of the state, the trust-based social contract between the state and people and the active involvement of the community through local governments” have been mentioned a key success factors in limiting the number of COVID-19 cases in Kerala (Issac & Sadanandan 2020:36).<sup>23</sup> The state had also gained knowledge from a previous public health crisis, an outbreak of Nipah virus infection in 2018; health workers had experience with infectious diseases, quarantine and treatment facilities were in place, and standard operating procedures for providing supportive care were known (ibid.:37).

The country chapters illustrate different experiences with and lessons from responding to the pandemic:

- **Cambodia’s** response was driven significantly by the national level, using the dual role of governors at the subnational level as strategic link between national policy and subnational implementation. SNGs had a crucial role in raising awareness, supporting communities with food, establishing quarantine and treatment places, and tracing and monitoring infections. They worked and cooperated closely with provincial health departments in technical aspects. Interdepartmental committees at all levels coordinated responses. Available evidence from Battambang Province indicates the willingness and preparedness of SNGs to act, if provided with the required resources and the political space to take decisions (DAR 2020).
- **Indonesia’s** SNGs shifted budget resources to their health sectors. Examples of district and city governments using digital innovations for combating the pandemic show that crises can also be opportunities for new approaches. As in Cambodia, the dual role of the heads of regional governments (provinces, districts, and cities) as representatives of the national government gave the latter a direct line of communication to the subnational level; nevertheless, systems and procedures for information sharing and coordination between the levels of government have substantial room for improvement. There have also been critical observations related to the availability and accuracy of data (Sevindik et al. 2021). Providing public health services is a key function of the provincial level; provinces therefore played a lead role in determining province-wide response measures.
- In **Mongolia**, responses to the pandemic were largely shaped and determined by the national level, with the SNGs having important roles in targeting and administering financial relief programs. While SNGs have potentially a significant role in containing and mitigating impacts of COVID-19 through their local investments in public health, water, and sanitation facilities, cutbacks of transfers from the Local Development Fund has severely curtailed this role.
- **Nepal’s** response took place in the context of an ongoing transition to a federal system with all its teething problems. There was a lack of clarity about the functions and responsibilities of the different levels. The national government took a more heavy-handed role in imposing measures without consulting the subnational levels. However, the newly created provinces performed fairly well, and local governments, supported by an active civil society, took

a proactive role (see Chapter 11). It seems that formal coordination mechanisms (such as committees) did not perform well. A shortage of health facilities and inadequate financial resources limited the effectiveness of local government interventions.

- In **Pakistan**, the federal level took the lead role in determining economic and fiscal measures, while the provinces handled health-related issues in line with the assignment of functions in the 2010 constitutional amendment. Because of the absence of elected local bodies and elected heads of local government (such as mayors or district chairpersons), local measures were decided by the deconcentrated structure of the provincial administration (such as deputy commissioners and assistant commissioners). Coordination remained an issue between the levels. Provincial governments acted quickly to provide additional financial resources to local governments, and to remove restrictions on existing resources which could be redirected to containment and relief measures.

In the context of the pandemic, comprehensive evidence is still lacking to make a robust judgment about the strengths or weaknesses of existing multi-level arrangements in the countries covered in this publication. The evidence emerging so far points to the strong role of deconcentrated institutions (such as the position of governor in its dual function as elected head of local government and representative of the national government) and the use of delegation to direct the actions of local government. But there are also encouraging examples of the effectiveness of local governments in responding when given the administrative and fiscal space for local decision-making.

An analysis of the VNRs submitted in 2020 confirmed the negative impacts of COVID-19 on the implementation of the SDGs, in terms of both reversing previous gains and disrupting the trajectory of further development. Of the 46 VNRs submitted by mid-2020, 39 explicitly mention the pandemic and its implications, for example, for health and socioeconomic development (UN DESA 2020).

What, then, are the likely implications of the pandemic for the localizing SDG discourse in Asia and the Pacific region?

Overall, we anticipate the need for a country-wide stock-taking of how effectively the existing multi-level arrangements have responded to the pandemic, and what conclusions can be drawn for the required institutional innovations mentioned earlier. Such stock-taking needs to focus on the clarity of roles and mandates of each level of government; regulatory, financing, implementing, and oversight responsibilities of public institutions at national, regional, and local levels need to be unambiguously delineated. Other areas include the distribution of resources among levels of government, the flow of information between them, the effectiveness of coordination arrangements, and the capacity of data systems to capture and provide accurate information.

Taking the four elements of the enabling environment discussed earlier as a framework of analysis, the following issues will be central during the next few years:

- *Functional assignment and clear mandates and responsibilities between levels of government*

Lack of clarity on “who does what” continues to be a crucial factor influencing the performance of multi-level government systems. All our country cases indicate that this is a weakness of the political, legal, and administrative environment under which SNGs operate. Teething issues are bound to arise in transition periods, such as Nepal’s shift to a federal system or Cambodia’s more recent decision to transfer substantial sector functions to districts and municipalities. However, even in more mature multi-level systems, like Indonesia’s, a fuzziness of functional assignment arrangements continues. This shows that policymakers have not taken this issue seriously; they continue to underestimate how this factor triggers suboptimal performance in multi-level systems along the service delivery process. Whether it is in times of crisis (like the COVID-19 pandemic) or in “normal” times, this issue must be settled in a way that each level has a solid understanding of what its functions and responsibilities are. Otherwise, delays and shortcomings in service delivery will continue to disappoint citizens; they will question the capacity of public institutions to provide services if and when needed, with all the consequences this might entail (reduced social capital, lack of legitimacy of political decision-making bodies, etc.).

In view of the pandemic, it is likely that sector services (and therefore government functions) in health (SDG 3), water and sanitation (SDG 6), social security (SDGs 1, 2, and 10), and employment generation and economic growth (SDG 8) will become more prominent as countries in the region struggle to “build back better.” Efforts to make functional assignments clearer need to focus on these sectors as a matter of priority. Likewise, gender equality (SDG 5) needs to be addressed in a more focused and serious manner, as the effects of the pandemic have again shown gender inequality related to access to public services, and overall well-being.<sup>24</sup>

As a reaction to the pandemic, the existing arrangements for disaster management have come into focus again. The experience of Kerala, India (see above) has shown the value of having response plans and protocols at the ready. The province of Punjab, Pakistan, in its provincial strategy for the post COVID-19 recovery phase, has highlighted the need to elaborate on the role of local governments in the overall social protection framework, and to assess the efficiency and efficacy of risk and disaster preparedness in local government rules and regulations. The strategy explicitly recommends introduction of a local government mandate on emergency response in the 2019 Punjab Local Government Act (see Chapter 12). Similarly, Cambodia’s new National Programme for Sub-National Democratic Development 2021–2030 identifies disaster preparedness as one of the cross-cutting issues to be addressed over the next ten years (NCDD 2020).

- *Participation of SNGs in policy arenas*

Collaboration across levels of government and building multi-stakeholder partnerships remain crucial for the recovery phase and for bringing back progress in



localizing the SDGs. Cooperation between levels of government and across municipalities and regions is essential “to help minimize disjointed responses and competition for resources during a crisis” (UCLG et al. 2021b:9). Coherence with cross-cutting sectoral interests and priorities need to be ensured as well. Given the transformative agenda of the SDGs, governments and public institutions at all levels need to work closely with a range of diverse stakeholders, including chambers of commerce and business federations, large businesses and SMEs, international institutions, academia, philanthropic organizations, non-profit and volunteer groups, and civil society organizations at large. Benefits of such partnerships were seen in expediting responses and efficient management of COVID-19 containment strategies and in mobilizing expertise and resources from a wide range of actors.

As the GTF reports indicate, there has been a visible improvement over the years regarding the involvement of SNGs (and other stakeholders) in national policy arenas dealing with the 2030 Agenda and how it is being implemented in each country. However, this process has been neither linear nor without setbacks. Our assumption is that this process will continue, and that national, regional, and global local government associations will continue to strive for such involvement. The use of VSRs and VLRs will give additional strength to the subnational voice, and the latest round of VNRs in 2021 has shown that this voice is increasingly reflected in the national reporting (GTF 2021). The pandemic is not likely to have a negative effect here; rather, it can strengthen the involvement of SNGs in view of the tremendous efforts to “build back better” which cannot be achieved without the full contribution of the subnational level.

- *SNG planning and budgeting processes*

Chapter 2 on fiscal decentralization provided an overview on the current status of subnational finance in Asia and the Pacific and emphasized the crucial role of intergovernmental transfers as a source of SNG revenue. Even before the pandemic, access to sustainable long-term finance, international public finance, and public-private partnerships had been highlighted as potential means to secure expertise and funds for SNGs to take on the responsibilities that come with mainstreaming the SDGs (UN DESA 2018b).<sup>25</sup> The scissor effect of the pandemic (i.e., increase of expenditure and simultaneous decrease of revenues) will squeeze the fiscal space of SNGs further and jeopardize subnational efforts to invest in the priority SDGs. Subnational resource mobilization (i.e., the comprehensive use of existing revenue sources and the identification of additional revenue sources) and the continuing improvement of the subnational public financial management cycle (from tax administration to budget management and audit systems to financial accountability systems) are crucial for gaining fiscal flexibility. Giving SNGs a greater share of national budgets, new cooperative systems of multi-level finance, and new or innovative funding and financing mechanisms have been suggested as possible measures to strengthen their fiscal resilience (UCLG et al. 2021b:8ff). Enhancing the flexibility of subnational regulatory frameworks (e.g., for procurement), or lifting or loosening fiscal rules, would give SNGs more freedom to

maneuver not only in a time of crisis, but also in the general discharge of their functions (UCLG 2021b; OECD 2020; UNCDF 2020). For SNGs to play their crucial role in achieving the SDGs and surmounting the social and economic damages caused by COVID-19, such regulatory flexibility will also allow for more responsiveness in delivering services in line with community needs, while accommodating national priorities.

- *Data and monitoring systems*

The COVID-19 pandemic has “increased the need to assess sudden changes in income, employment, lifestyle, and other socioeconomic conditions. It has emphasized the lack of up-to-date data or disaggregated data for various SDG indicators in many countries” (ADB 2021c:45). At the same time, the pandemic has had a serious impact on the ability of states to collect data (ibid.:45). Even before the pandemic, ADB’s development member countries (DMCs) had invested in digital applications for obtaining citizen feedback, receiving complaints, and informing citizens about the actions taken. These efforts need to continue as the pandemic has shown the significance and effectiveness of digital tools for information sharing, awareness raising, and evidence-based policymaking.

While state-run data systems often cannot collect data sets that are comprehensively disaggregated and granular, community-based monitoring systems have been proven to be capable of collecting such granular data. State-run data systems should therefore be complemented by data from community-based monitoring. The complexity of data ecosystems which is likely to emerge needs some form of governance (such as standards and structures) to allow the alignment of “official” and “non-official” data sources. For example, the Philippine CBMS uses official definitions and standards of the national statistical system; its results can therefore easily be integrated.

There is a need for regional and global exchanges of data and information, and mutual access to databases. In Asia and the Pacific, such collaboration has taken place through common data formats such as SDMX.<sup>26</sup> Publicly available data sets, ideally equipped with visualization tools,<sup>27</sup> facilitate exchange between stakeholders; where they provide locally disaggregated data, they can provide essential information for fine-tuning SDG localization strategies at the subnational level. Awareness of the SDGs is required to facilitate a clear understanding of the benefit of SDG localization as well as the link between local, national, and global goals. SNGs and their associations can play a key role in increasing awareness of the SDGs among citizens and can advocate for an enabling environment that facilitates localization.

## **6.5 How the Asian Development Bank Supports Localization Initiatives in the Region**

ADB has been supporting efforts to achieve the SDGs in its DMCs from the very beginning. *Strategy 2030*, ADB’s long-term corporate strategy, clearly indicates

that “ADB’s aspirations for Asia and the Pacific are aligned with major global commitments that both DMCs and ADB have pledged to support—the SDGs and the related Financing for Development agenda, the Paris Agreement on climate change and the Sendai Framework for Disaster Risk Reduction” (ADB 2018a:9). The alignment with the SDGs is reflected in the operational priorities of *Strategy 2030* and informs the priorities of thematic, regional, and country-based operations. The need to localize SDGs into plans and priorities of SNGs is recognized as well: the Operational Plan for Priority 4 (“Making Cities More Livable”) affirms the willingness of ADB to “help member countries prepare and implement local SDG plans”, while the Operational Plan for Priority 6 (“Governance and Institutional Capacity”) notes that “ADB will help member countries pilot innovative technology-based projects to improve public service delivery including the SDGs, and improve decentralization and local governance capacity considering the importance of localizing the SDGs...” (ADB 2021c: 48). Within ADB, the sector and thematic groups have been leading ADB’s institutional support to the SDGs, even though embedding their thematic inputs in country operations strategies and projects is facing procedural and institutional challenges (ibid.:58ff).

ADB has increasingly integrated the SDGs in its planning and reporting mechanisms such as templates for reports, recommendations for the approval of project proposals, and formats of its country partnership strategies (ibid.:9f). ADB is the first multilateral development bank to track the links between its operations and the SDGs by integrating the SDGs into its project classification system and project design and monitoring frameworks. Support for DMCs in their implementation of national SDG agendas includes “establishing an effective architecture to support delivery of the SDGs within countries, integrating the SDGs into national plans and setting priorities to this end, delivering finance for projects and programs that will support progress on the SDGs alongside wider reforms and innovations to mobilize the finance necessary to achieve them, and developing the data and monitoring systems necessary to track and assess progress toward the SDGs” (ibid.:16). Cooperating with partners at global, regional, and country levels, and increasing knowledge and mutual learning are vital characteristics of ADB’s engagement in the pursuit of the SDGs.<sup>28</sup> One of these partnerships is the Asia-Pacific SDG Partnership bringing ADB together with the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) and the UNDP. The partnership provides a regional perspective and supports regional and country-specific efforts by means of reports, events, and policy dialogue (ibid.:65).

ADB has increasingly recognized the importance of the localizing SDGs discourse; not least in view of the fact that most DMCs feature decentralized, multi-level government systems. Since 2017, a regional knowledge and support technical assistance (TA) project (TA 9387: *Strengthening Institutions for Localizing Agenda 2030 for Sustainable Development*) has supported awareness raising, knowledge generation, and the building of innovative institutional capacity in the region.<sup>29</sup> Improving data systems required for measuring SDG progress and building up knowledge platforms are further operational areas where ADB at

regional or country level helps to enhance the institutional and technical environment for the achievement of the SDGs (ibid.:65f).<sup>30</sup>

It is obvious that COVID-19 has generated a greater urgency to increase regional exchanges on governance and institutional innovations in the context of localizing the 2030 Agenda. Here, ADB is well placed as regional knowledge broker with a wide footprint in regional knowledge management and capacity development. Tailor-made interventions in capacity development, the provision of learning opportunities, diagnostic work, and knowledge production are areas where ADB can strengthen efforts to localize SDGs in its DMC. ADB has been supporting regional platforms, networks, and communities which will allow DMCs to share information, increase horizontal learning, and exchange good practices and lessons learned. One example of such initiatives was the series of (virtual) roundtables on Localizing SDGs in Asia and the Pacific which took place in April 2021 and was organized jointly by ADB, UNDP, the OECD, and Development Partners Network on Decentralization and Local Governance (DeLoG).<sup>31</sup>

## Notes

- 1 The contribution by Pytrik Oosterhof to an earlier version of this chapter is acknowledged.
- 2 Just to give an illustration: localizing health-related SDGs would not be relevant for Pakistan's Khyber Pakhtunkhwa Province where local governments do not have a mandate for health services.
- 3 Income inequality in the Asia and Pacific region as a whole, measured by the Gini coefficient, increased by more than 5 percentage points between 1995 and 2015. The richest 10% of the population accounts for almost half of the region's total income, while the bottom half income group accounts for 12%–15% (UN-ESCAP/ADB/UNDP 2021:7).
- 4 The annual reports of the Global Task Force of Local and Regional Governments (GTF) to the High-level Political Forum (HLPF) provide a good summary how countries in Asia and the Pacific involve SNGs in SDG reporting and national SDG consultations (see e.g., GTF 2019, GTF 2020).
- 5 ADB et al. (2019).
- 6 The assessment uses a set of 11 criteria: constitutional framework, legislative framework, local democracy, financial transfers from central to local government, local governments' own revenue, capacity building of local government administration, transparency, citizen participation, local government performance, urban strategy, and environmental and climate change (UCLG-ASPAC & Cities Alliance 2018).
- 7 See especially Module 5 on *Localization of SDGs* (Oosterhof 2020).
- 8 See Chapter 4 with details on functional assignment and sector decentralization.
- 9 14 countries (= 6%) do not have SNGs with elected representatives.
- 10 Please note that "Asia-Pacific" as used by the GTF does not include Central Asia.
- 11 For example, in the case of Nepal.
- 12 For example, in the case of Bangladesh, Georgia, and Uzbekistan.
- 13 For instance, Mongolia's *Sustainable Development Vision 2030* aims at ensuring SDG localization and alignment of national policy planning with the SDGs (Government of Mongolia 2019:12).

- 14 See Chapter 9 for details.
- 15 Joint Memorandum Circular (JMC) No. 1 series of 2018 titled *Guidelines on the Localization of the Philippine Development Plan (PDP) 2017–2022 Results Matrices and the Sustainable Development Goals*.
- 16 See Chapter 2 on fiscal decentralization.
- 17 According to the Global Task Force, there is a “growing mismatch between the funds available at the global level and the funding that actually reaches territories and communities that are most in need; this is, undermining many SDG localization efforts” (GTF 2020:109). The report also underlines the need to diversify the financing sources for SNGs.
- 18 See the discussion on elite capture in Chapter 1.
- 19 The rationale for data disaggregation in the context of the SDGs and the ensuing challenges for national statistical systems are discussed in detail in ADB (2021b).
- 20 Other examples of local initiatives for promoting SDG achievement through subnational data and monitoring systems can be found in Trends and SDSN 2019.
- 21 Nepal is a good example for comprehensive civil society inputs to the national report (see Youth Advocacy Nepal 2020).
- 22 See UCLG-ASPAC 2020 for an early compilation of examples how local governments in Asia and the Pacific responded to the unfolding pandemic. See also UNCDF (2020:3f) and GTF (2021:14). For OECD countries, see OECD (2020).
- 23 It is pertinent to mention the significant role of the Kerala Institute of Local Administration (KILA), the state’s local government training institute, which provided significant outreach support and training to local government staff and officials. For details, see <https://cblsgi.kila.ac.in>.
- 24 See, e.g., UCLG et al. (2021b:12).
- 25 See UN DESA 2018b.
- 26 ADB is actively promoting SDMX as a tool to exchange data in Asia and the Pacific, and is supporting Thailand, Cambodia and the Pacific Islands to use such data to measure SDGs.
- 27 The OECD has developed a platform for visualizing the progress of SDGs in cities and regions; see <https://www.oecd-local-sdgs.org>. In July 2021, the UN launched a Youth SDG Dashboard as a data visualization platform that enables youth to navigate all 17 SDGs and their indicators, and to track the specific indicators that relate to youth under various SDG targets (<https://www.un.org/youthenvoy/youth-sdg-dashboard>).
- 28 For instance, ADB and UNDP jointly have formulated an SDG Country Implementation Snapshot for countries such as Cambodia, Indonesia, and Nepal (ADB 2021a). See <http://www.sdgsnapshot.org/nepal> for Nepal (accessed 23-07-2021). See ADB (2021a:60–66) for more details on ADB’s collaboration with a wide range of global and regional organizations related to the SDGs.
- 29 Details of the TA can be found at <https://www.adb.org/projects/50385-001/main#project-pds> (accessed 23-07-2021).
- 30 For instance, in late 2020 a technical assistance project *Strengthening Economic Statistics for Measuring Progress Towards Sustainable Development Goals (SDGs)* (TA 6565-REG) was approved. It aims to enable ten member countries to produce high quality economic indicators to monitor progress toward both the SDGs and *Strategy 2030* objectives.
- 31 Details of these events can be found at ADB’s Knowledge Events website, see <https://events.development.asia/learning-events/localizing-sdgs-week-2021> (accessed 23-07-2021).

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# 7 Conceptualizing and Implementing Decentralization in Asia and the Pacific—Reform Designs, National Strategies, and Development Partner Support

*Sebastian Bartsch*

## 7.1 Building Blocks and Key Issues for Reform Designs and Implementation Strategies

The conceptualization of decentralization reforms requires a clear view of the crucial building blocks which, in their entirety, make up a comprehensive reform design. Although there is no authoritative list of such building blocks, the importance of the following elements (see Figure 7.1) is undisputed:

- Informed choices about the different modalities of decentralization (devolution, delegation, and deconcentration) and the subsequent arrangements for the political, fiscal, and administrative dimensions.
- A proper functional assignment in sectors affected by decentralization that delineates the division of responsibilities and facilitates service delivery and good governance.
- Revamped fiscal transfers and revenue arrangements that ensure subnational governments (SNGs) have sufficient funding to fulfill their mandates and meet local priorities.
- Empowered SNGs, rearranged local governance systems, and interactions between local actors and stakeholders that enable local representation, local rights, and the ability of the local level to identify and express its own preferences.
- Reshaped civil service arrangements that enable the required personnel to be deployed to SNGs.
- Appropriate capacity development strategies.
- Restructured and enhanced accountability relationships, both vertical and horizontal.
- Targeted interventions to ensure the decentralization reform also helps combat gender inequality.
- Effective monitoring and performance measurement so that results can be used to fine-tune the reform in line with the intended impacts.

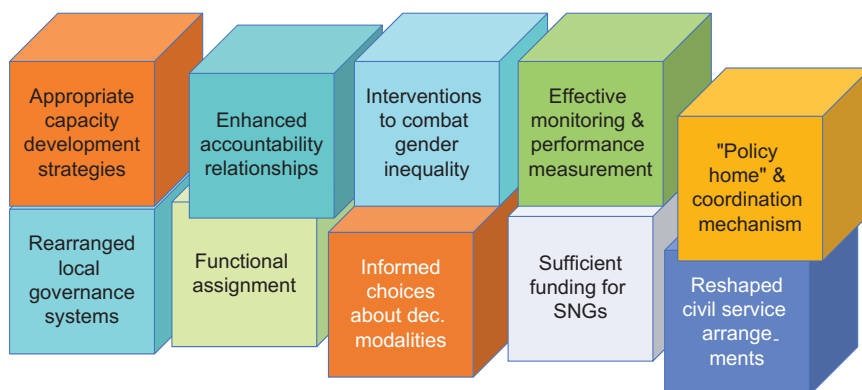


Figure 7.1 Building Blocks of Decentralization Reforms.

Source: Author.

- A “policy home” within national government and a policy coordination mechanism that promotes and facilitates cooperation among various stakeholders to ensure consistent reform design and effective implementation.

Each building block needs careful technical consideration. While the literature provides many recommendations on how to approach and design individual elements, the way in which these building blocks are addressed in practice varies substantially from country to country.

But design is not only an issue for the individual parts of the reform. It also plays a decisive role on a more aggregated level that concerns the reform in its entirety. The examples of Cambodia and Nepal (see Box 7.1) show how national programs (which furthermore link government initiatives with external support by development partners) can address individual reform elements as part of a larger agenda. Having a well-designed reform framework and a planned implementation strategy increases the probability of reform success. Unfortunately, there is no single, generally accepted “best practice” approach to designing and implementing decentralization and local governance (DLG) reforms. It is possible, however, to identify some key issues in ensuring the quality of such conceptualizations and addressing the building blocks mentioned earlier. These issues include (i) the country context, (ii) the scope and pace of reforms, (iii) the sequencing of reform elements, and (iv) how to organize the reform process.

### BOX 7.1 EXAMPLES OF NATIONAL DECENTRALIZATION PROGRAMS IN ASIA AND THE PACIFIC

Among the countries that have designed a comprehensive program for their decentralization reforms are Cambodia and Nepal. Since 2010, Cambodia has been implementing the ten-year *National Programme for Sub-National Democratic Development* (NP-SNDD). It covers all core areas of the reform, addresses the institutional and financing dimensions of its implementation, outlines the results to be achieved, and divides the implementation into three sequenced phases. Work plans and budgets for every phase and each year further refine and specify the program. In the light of the experience gained, the program has been adapted repeatedly at the intervals of the implementation phases. In December 2021, a second phase of the program (NP-2) was approved for the years 2021–2030.

Nepal's DLG reform program shares these positive features in a similar way. What initially started as the *Local Governance and Community Development Programme* (two phases between 2008 and 2017) went through a transitional period in the form of a bridging program (2017–2019) and then further evolved into the *Provincial and Local Governance Support Programme* (since 2019). What makes the Nepalese example particularly interesting is the repeated adjustment of the program to significantly changing political and institutional framework conditions (overcoming of instability and internal strife and creation of a federal structure) while avoiding harmful breaks in the reform design.

Sources: RGC (2010, 2012, 2020); GON (2013, 2019)

### Country Context

Viable decentralization reform designs and implementation strategies must be aligned with and adjusted to the existing country context. Insufficient attention to important contextual factors often lies at the beginning of serious design flaws. This general requirement of “alignment with the country context” alone is too vague and needs to be made concrete and substantiated (see Section 7.2).

It is not uncommon for countries to implement asymmetric arrangements<sup>1</sup> where certain territorial entities are treated differently from the others. It may be appropriate to decentralize certain political, economic, and administrative responsibilities faster—sometimes in testing mode—to areas with greater implementation capacity, such as large urban areas. Such decentralization may also be implemented to reflect the special status of capital cities; to stimulate economic competition; to help certain regions catch up on development backlogs by providing them with a larger share of revenue for specific services; to manage multiculturalism and diversity; and to mitigate conflict and build or re-establish peace (Shair-Rosenfield et al. 2014; International IDEA/Constitution Transformation Network 2018).

Examples of asymmetry in Asia and the Pacific include Aceh in Indonesia, the Bangsamoro region in the Philippines, the Autonomous Region of Bougainville in Papua New Guinea, Sabah and Sarawak in Malaysia, and the Oecusse in Timor-Leste (see Box 7.3). As Roy Bahl and Jorge Martinez-Vazquez have stated,

asymmetric treatments “have the disadvantage of creating complexity, but the ability to adapt to very different conditions and capabilities may more than offset that disadvantage” (Bahl & Martinez-Vazquez 2006:20).

## **BOX 7.2 ASYMMETRIC ARRANGEMENTS IN ASIA AND THE PACIFIC**

Asymmetry typically involves greater autonomy for one or more parts of the country than for others. This may mean more legislative, executive, or sometimes judicial powers for an SNG to govern its own people; distinctive governance arrangements; and greater access to fiscal resources. The following examples illustrate some of the possibilities.

In Indonesia, 5 of the 34 provinces have special status: Jakarta as capital city, Aceh, Jogjakarta, Papua, and West Papua. Of these, Aceh has the most extensive autonomy. The province has its own flag, crest, and hymn, and retains Sharia law. The administration of Aceh has the authority to govern all aspects of public affairs apart from those that are clearly national, such as foreign and defense policy. It has the right to retain 70% of the revenues from current and future hydrocarbon deposits and other natural resources in its territory and territorial seas. It has the right to a special autonomy fund from the state budget, equal to 2% of the national general allocation budget. And it has the right to form local political parties (which are otherwise prohibited in the rest of the country).

In the Philippines, the Bangsamoro Organic Law (BOL) creates the Bangsamoro Autonomous Region of Muslim Mindanao (BARMM) with distinctive governance arrangements. The region’s autonomous character comes to the fore in a wide range of functions assigned to it. These include public administration and civil service, the justice sector, regulation of local government affairs, taxation and revenue generation, a wide range of social and economic sector functions, jurisdiction for the management and exploitation of natural resources, and land management. BARMM’s special status is also expressed by its parliamentary form of government, contrasting with the presidential form prevalent for the nation state. A range of political and technical bodies with mixed membership from the region and the national level is tasked with making Bangsamoro autonomy work without compromising the unitary character of the state.

In Papua New Guinea (PNG), the Autonomous Region of Bougainville has special status, with its own constitution, president, legislature, and courts, following almost a decade of violent conflict. The 2003 Bougainville Peace Agreement set out a list of powers that continue to be exercised by the PNG government but left all residual powers to Bougainville. This includes specifically giving “power to decide on foreign investment applications for Bougainville” as investment (particularly in extractive industries) was a highly contentious issue during the conflict. The peace agreement also provided that a referendum on Bougainville’s independence would take place. It was conducted in non-binding form in November/December 2019 showing that 97.7% of the participants were in favor of full independence. Thus, the leadership of PNG and Bougainville will have to negotiate as to whether Bougainville will be allowed to break away from the rest of the country.

Sources: Butt and Lindsay (2012); Harding and Chin (2014); Wallis (2014); Kwa (2017); International IDEA/Constitution Transformation Network (2018)

*Scope and Pace of Reform*

Although scope and pace are separate aspects of decentralization reform designs, they are closely connected in some respects. Both can reveal the level of ambition with which a reform is approached (which can be more or less realistic under the given circumstances).

With regard to scope, the main question concerns the right degree of comprehensiveness of the envisaged reform. Some countries tend to change some specific aspects of their systems of intergovernmental relations in isolation. However, meaningful decentralization is a comprehensive reform. It is complex in itself and linked with broader state and public sector reforms, sectoral rearrangements, and progress in democratization and governance. The vision of the reformers should therefore be holistic. All key components should be included in a comprehensive plan, with political, administrative, and fiscal decentralization linked and integrated in a single package. All pieces of the puzzle should be present and fit together so that the various elements can be implemented in recognition of their interdependencies and with the necessary degree of consistency. Addressing key decentralization issues insufficiently, or not at all, will almost certainly lead to a reform drifting in a dysfunctional direction.

However, the demands of a comprehensive reform design must not overburden the reformers, their institutional structures, and their capacities. Here, the issue of pace and sequencing comes into play.

There are a few examples of radical decentralization reforms being implemented in a single initiative over a relatively short period of time, usually rushed under great political pressure. Indonesia's "Big Bang" decentralization reform of 1999–2000 is one of these. However, for most countries, such an approach is not a serious option.<sup>2</sup>

In most cases, the pace of reform implementation should be incremental, with logically phased steps, whether small or large, but always in awareness of the larger goals of the reform process. Engaging in limited and sometimes modest reform steps that move the system in the right direction and build a foundation for further action is more productive and sustainable than plunging too quickly into a too comprehensive process that is likely to stall sooner or later, be it for political reasons or because of capacity constraints. There are two other reasons why gradual implementation carries less risk (Bahl & Vasquez 2006:30). First, there is usually not enough information to predict how things will eventually work out, compared to how they were planned. Second, the cost of a decentralization reform is substantial, and gradual approaches allow this cost to be spread out over a number of years. Gradual implementation requires consideration of sequencing issues.

*Sequencing*

Sequencing is a challenge for the entire decentralization process, and the need to sequence can be related to different elements of a decentralization reform.

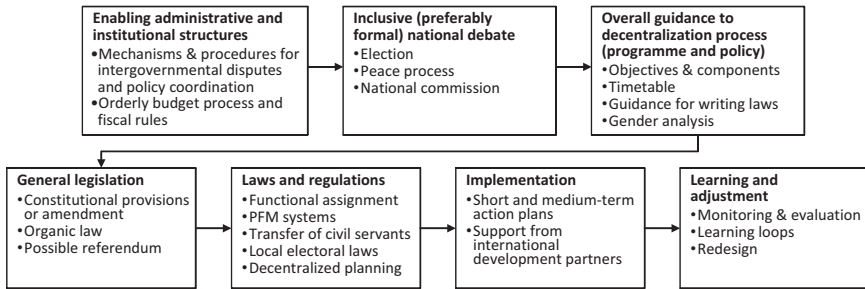


Figure 7.2 A Normative Approach to Sequencing Decentralization Reforms.

Source: Author.

First of all, the preparation, strategizing, political and legal definition of key reform parameters, and implementation must go through certain phases. In this respect, the literature points to a simplified ideal-typical sequence. Broadly speaking, assuming that a minimum level of state capacities already exists, an inclusive and popular debate about the goals of decentralization should be followed by development of a policy and a program structure to carry it out, passage of necessary legislation, and implementation. Figure 7.2 shows a simplified model of this process.

Furthermore, opportunities and needs for sequencing also exist in the thematic or “technical” building blocks of the reform, both individually and in terms of the relations between them. For example, the political, fiscal, and administrative dimensions of decentralization, which must be linked for successful reform, can be rolled out in different sequences (but can also be approached simultaneously). Based on empirical studies in Latin America, Falleti (2005) concluded that the sequencing of political, administrative, and fiscal decentralization tends to depend on whether the reforms are initiated “from above” or “from below.” While national governments usually preferred the sequence of decentralization as administrative, then fiscal, then political (A>F>P), SNGs tended to prefer the reverse sequence of political, fiscal, and administrative decentralization (P>F>A). Thus, the choice of a specific sequence seemed to be determined by political interests and power constellations between national and subnational actors, and not a matter of generally better or worse options. However, other analysts have warned against overstating the importance and effectiveness of a particular form of sequencing or to conclude prematurely that a preferred sequence will bring the desired results, without looking carefully into the specific context (Eaton et al. 2011:20).

Another salient sequencing topic is the order in which the transfer of responsibilities and power to subnational levels on the one hand, and the development of subnational capacities on the other, should take place. Many central governments are reluctant to devolve powers before capacity has been demonstrated.

This can be a legitimate concern, but capacity arguments are also often used to maintain excessive national government control, and sometimes as an excuse for not transferring funds. However, without powers, SNGs cannot gain the experience needed to build capacity, nor can they demonstrate that capacity has been gained. For a solution to what superficially looks like a chicken-and-egg problem, two elements are needed. On the one hand, local decisions must conform with jointly agreed and attainable minimum standards. On the other, the transfer of responsibilities and power must be accompanied by an offer of technical support and training to help subnational authorities achieve more effective decision-making and implementation. The bottom line, however, is that true decentralization implies strengthening of local democracy, and this in turn involves the risk of allowing people at subnational levels to make their own decisions—within some minimum set of guidelines—even when the outcomes are not optimal from a national government perspective.

It must be borne in mind, however, that there is no single best approach to sequencing decentralization. What is normatively recommended, and sometimes empirically substantiated, is rarely implemented seamlessly in practice. Rather than following a strict timeline of steps, real-world reform sequencing often resembles a balancing of the different decentralization building blocks. There are many reasons why countries may deviate from textbook approaches. Bahl and Vazquez (2006:36–37) found two of them especially noteworthy. First, a desirable sequence can be too complex and too demanding in design. They saw this risk particularly in the fiscal dimension of decentralization where fiscal planners in developing countries might be unwilling to take on overly complex schemes. Second, sequencing calls for a sustained discipline and vision for its implementation, which requires withstanding and overcoming pressures from political actors.<sup>3</sup>

Apart from the challenges of practical implementation, it must be stressed that, even at a conceptual level, deliberate and targeted sequencing does not always occur. Hence, examples of “make it up as you go” approaches do exist. Where it does take place, sequencing can be part of a strategic approach to support reform, or it can primarily reflect political and institutional dynamics that do not have an effective decentralization reform as their primary objective. To analyze and understand decentralization reform processes, it is therefore important to be aware of where sequencing occurs, why it was adopted, and whether and how it affects performance. No formula will produce the same results in every country.

### *Organizing the Process*

Setting the course for a viable decentralization reform design and a workable implementation strategy depends very much on consensus-building and reconciliation of interests. Ideally, the reform is pushed from above as well as pulled from below (Romeo 2012:11), with supply from the national level and demand for authority, responsibilities, and resources by SNGs and civil society



organizations. But no matter how near or far a country is from this ideal, it is important to have consultation, negotiation, and involvement of all the important stakeholders from conceptualization through the subsequent phases, with jointly agreed milestones, participatory monitoring, and learning loops.

All of this requires adequate intergovernmental linkages and extensive coordination within national government, at subnational levels, between different government levels, and between government and nongovernment actors. Coordinating institutions and mechanisms are needed so that policies can be discussed, strategies and action plans negotiated, policy implementation monitored, and outcomes evaluated. As with other reform elements, there is wide variation in coordination bodies from one country to another; in many cases, coordination is a major problem. Formal mandates and structures are not enough to guide the behavior and interactions of the actors to be coordinated in the desired direction. Appropriate incentives for cooperative behavior must also be provided. Poor coordination can lead to serious design inconsistencies and limit the effectiveness of implementation.

It is particularly important to bring on board the ministries and agencies that can address core reform challenges, shape reform details, and implement and understand the reform to develop a sense of co-ownership.<sup>4</sup> This applies to those responsible for finance, planning, or public service, and to sector ministries in charge of overall sector policies, strategies, norms, and standards. Only in this way is it possible to live up to the dictum of decentralization being a “whole of government reform.”

## **7.2 Political Economy of Decentralization Reforms**

Suitable designs and implementation strategies of reforms must be aligned with the existing country context. Valuable insights into this context can be gained by applying the concept of “political economy.” According to a widely used definition proposed by the United Kingdom’s Department for International Development (DFID), the most basic meaning of the term is “the interaction of political and economic processes in a society: the distribution of power and wealth between different groups and individuals, and the processes that create, sustain and transform these relationships over time” (DFID 2009:4). Likewise, applied to policy reform, Abonyi et al. (2013:4) concluded in an Asian Development Bank (ADB) publication that political economy refers to the “interrelationship between political and economic processes and institutions, particularly as related to policy issues, interests, decisions, and reform implementation.” To simplify the complexities of policy reform and the supporting loans and technical assistance, ADB prepared a guidance note on how political economy analysis can be used by its staff to inform the design and implementation of operations for more feasible and sustainable development outcomes (ADB 2013).

Political economy approaches and analyses are characterized by a number of attributes:

- They emphasize the central role of politics, political calculations, and dynamics, and draw attention to how political power is won, exercised, secured, and contested.
- They identify underlying factors that influence and shape political processes, such as history, geography, and deeply embedded social norms and practice.
- They downplay the normative and emphasize the analytical.
- They consider institutions (formal and informal) key in determining incentives that influence patterns of behavior, without losing sight of less tangible factors such as ideas, values, ideology, and reputation.
- They focus on real-life stakeholders, groups, and individuals as well as how their behavior is affected by interests, incentives, and institutions.

For practical application, a variety of political economy tools are available, most of which rely on qualitative assessments and the informed judgment of the analyst. These tools help set out a range of questions that are likely to be relevant to assess a particular context.

Political economy dynamics are also crucial for decentralization reforms. As has been pointed out in Chapter 1, decentralization is not a technical issue, but rather one driven by political constellations and rationales as well as bureaucratic dynamics. These factors influence the way decentralization unfolds, its outcomes, and the prospects for its sustainability. The political economy underlying the adoption, design, implementation, and modification of reform is “perhaps the most dominant factor that shapes decentralisation” (LDI 2013:43). Hence, it would deserve more careful consideration. At the same time, however, it is one of the least discussed in large parts of the literature.

When looking more closely at how a political economy perspective can be applied to decentralization, it is important to pay particular attention to four main elements:

- The politics underlying the initial context and motivations for decentralization reform.
- Key actors involved in decentralization—politicians and bureaucrats at various levels as well as citizens—and the interests and incentives that condition their behavior with respect to reform design and implementation.
- The current stage of reform and its trajectory as it has unfolded since the initial decision to decentralize.
- The role and incentives of international development partners with respect to decentralization, both individually and collectively (Eaton et al. 2011:xiii).

Incentives are anchored not only—and often not even primarily—in how decentralization actors view the rationales and objectives of decentralization reforms, such as improved service delivery, improved governance, poverty reduction, or enhanced stability. To a large extent, they are also linked to individual concerns and institutional interests. For politicians, these include electoral incentives (how different electoral systems or electoral patterns influence

their position); partisan incentives (the dynamics of inter- and intra-party competition); institutional incentives related to key features of the political system such as presidentialism or parliamentarism; and coalition incentives related, for instance, to the role of labor movements and business associations. Non-elected individuals in the bureaucracy, who must be seen as “political actors in their own right” (Eaton et al. 2011:35) given their importance for how decentralization is implemented, are also driven by concerns about career paths and security of tenure.

From a political economy perspective, the nature and strength of incentives and reform dynamics are likely to shift over time and can be influenced. This allows for a nuanced view of how political and bureaucratic dynamics affect decentralization reforms instead of the stereotyped notion of “political will” (or lack thereof) and encourages the search for suitable entry points for change.

Political economy dynamics can either support or stall decentralization. They can be national, subnational, or intergovernmental. Although manifestations can vary considerably from country to country, some common examples may serve as illustrations.

At the national level, recurrent themes include:

- Limits in central government and key ministries’ commitment and interest in decentralization reform in general, or in specific aspects and steps of reform.
- Political struggles and bureaucratic disputes and resistance.
- Government agency interrelationships, including cooperation and competition for control of the decentralization agenda and the resources that may be involved in its implementation.
- Coordination challenges and mechanisms.
- Use of decentralization for non-reform goals and interests—for example, the interests of parties and patronage networks.
- Roles and potentials of reform champions and change agents at the national level within the broader context of the formal and informal institutions around them.

At subnational levels, typical phenomena that are addressed from a political economy perspective are:

- The interactions and dynamics within communities, such as those among the multiple agents operating in the subnational space (elected bodies and officials, administration, nongovernmental organizations, citizens, and service providers) and how these dynamics affect subnational governance.
- How local actors gain, secure, and lose power and how this may advance or undermine the objectives of decentralization (for example, through elite capture, patronage, vote buying, and other forms of corruption).
- The social demand for reform and the role of local leadership.
- Interrelationships between intermediate (provincial) and local (district or county) levels.

- Potential roles of reform champions and change agents at subnational levels within the broader context of the formal and informal institutions around them.

Typical political economy issues regarding national/subnational interactions and relationships include:

- The often-difficult relationships between certain national ministries and local governments and their underlying causes.
- Struggles across levels such as those triggered by the formal transfer of functions and resources.
- Discrepancies between functions assigned to subnational levels and the lack of adequate fiscal transfers and reshaped civil service arrangements to achieve service delivery and development results.
- The choices national government actors make on whether to decentralize to intermediate or local governments, and the political motivations that guide their respective preferences.
- The limited or absent influence of the intended beneficiaries at subnational levels, such as local governments or civil society organizations, on many decentralization reforms.

Gender analysis is a key aspect of political economy analysis. Gender-focused political economy analysis provides a baseline to guide the reform trajectory and its underlying theory of change, and to inform policy makers about the required gender mainstreaming measures.<sup>5</sup>

Returning to how a political economy perspective helps to develop viable decentralization reform designs and implementation strategies and to avoid serious design flaws, two conclusions can be drawn. First, analyzing and assessing existing reform designs and implementation strategies increases the understanding of why a country conceptualizes its decentralization reform the way it does. Such analysis systematically draws attention to political and institutional dynamics and the incentives behind them.<sup>6</sup> Second, a political economy perspective provides a more realistic view of the feasibility of an upcoming or pending design or reorientation<sup>7</sup> of a decentralization reform. It warns against normative and overambitious approaches and the adoption of other countries' "best practice" models without sufficient consideration of the circumstances in which they worked. It cautions also against pretending there is policy clarity when it does not exist, and emphasizes the importance of space for policy experimentation and the building of reform constituencies.

Much of what is prescribed in normative textbook approaches to the design of decentralization reforms inevitably collides with constraints stemming from the underlying political motivations and framework conditions for reform. Hamish Nixon and Cindy Joeline have made the important point that this doesn't always have to be bad: "sometimes, these departures are in the best interests of getting the job done" (Nixon & Joeline 2014:5). Reform designs and implementation

strategies must address the goal of decentralization and show a path to reach it that seems realistic in the given context. This path will never be linear. Intermediary and less than optimal arrangements, compromises, and even inconsistencies, will have to be accepted sometimes, trusting that these may have a potential to open space for further steps in the not-too-distant future. Reform champions will have to be prepared to take detours so that the reform can be kept alive. This will require a certain quality of domestic political debate and exchange with international actors throughout the course of the reforms.

International development partners can support this process. For them, the issue of political economy is also important, in several respects:

- First, international development partners have played a key role in generating many of the political economy conceptual approaches and analytical tools. They have provided practical guidance on understanding the dynamics that affect development processes, including decentralization reforms. In the second half of the 2000s, the World Bank, the European Commission (EC) and bilateral agencies such as DFID, the Swedish International Development Cooperation Agency (SIDA), and The Netherlands Ministry of Foreign Affairs, began to develop political economy instruments, mostly for country and sector levels.<sup>8</sup> The World Bank (Eaton et al. 2011) and the Danish International Development Agency (DANIDA) (Tidemand 2010) were particularly active in showing how a political economy perspective can be applied to decentralization.
- Second, international development partners use political economy approaches and tools, albeit still far too rarely. This helps them understand the institutional and political realities and the underlying factors of a particular context, and thus how they can best contribute to development results. They can then design and adjust their engagement strategies based on realistic expectations, instead of implementing a self-defined normative agenda. They can more reliably and accurately identify relevant entry points for incrementally supporting real change dynamics with adequate scope and modalities. Political economy analyses may influence the development partners' perceptions of certain stakeholders. This can lead to more targeted support for a different set of country counterparts, with a clearer focus on reform champions and other drivers of change. In sum, using political economy insights increases the chance that international development partners will provide adequate support to decentralization reforms, building on the systems and processes in place. This in turn will allow for better impact and structural change, and better monitoring of the contextual environment while support is delivered.<sup>9</sup>
- Third, through the support they provide, international development partners inevitably influence the political context—and the political economy—of the countries they are working in, be it at country or sector level. This of course also applies to the area of decentralization, where financial aid, technical assistance, and policy engagement play an important role in many countries' reform efforts. By their choices of aid instruments, political counterparts,

and implementing partners, development partners alter the incentives for certain stakeholders and for the wider society. By their preferences for certain beneficiaries, they affect the dynamics of affirmation and contestation around the reform. In any case, development partners must be careful to avoid encouraging problematic political economy dynamics among partner country institutions which run counter to the achievement of reform goals.

- Finally, international development partners have their own political economy. They, too, are interest-driven, with their own political, developmental, sometimes commercial, and even geostrategic objectives. Like all other actors involved in development cooperation, they face specific institutional and bureaucratic incentives. These shape their preferences for certain issues and approaches, their behavior, how they work with country counterparts, and their interactions with each other. Certain development partner incentives, or their absence, can have significant impact on the quality of the support they bring to a decentralization reform. A political economy perspective should therefore also be applied to development partner engagement.

### 7.3 Role of Development Partners

International development partners are seldom the primary drivers of decentralization in a country, but they often play important roles. Their interventions take place across the full spectrum of technical and institutional reform dimensions. They advise on policy priorities and design, provide funding for decentralization implementation, and support capacity development through technical assistance and other means. Due to the multi-faceted nature of decentralization, there are countless points of entry and potential focus areas available for support.

Just as the reform goals of partner countries themselves can be varied, development partners can also be guided by different motivations and objectives when providing support. These are frequently “classic” decentralization objectives such as improved service delivery and good governance or, in a wider perspective, poverty reduction and enhanced democracy. In an increasing number of countries in fragile and post-conflict situations, however, decentralization is also associated with stabilization and state-building objectives.

The types of programs development partners use to promote and support decentralization reform efforts are also diverse. Dedicated decentralization programs with a holistic understanding of the reform (involving all levels of government, political, administrative, and fiscal dimensions as well as implications for sectors) appear to be the most obvious choice, although such programs cannot address all elements of reform at once. But they are not the only option. Meaningful links to an upcoming or ongoing decentralization reform can also be made through local governance or wider good governance programs, public financial management and civil service reform programs, urban and rural development programs, and sector programs in areas with a high degree of or potential for local service provision such as health, education, or water and sanitation.

However, the fact that such programs address aspects that are relevant for decentralization does not mean that they automatically contribute to a decentralization reform in a positive and complementary manner. Sometimes they are unrelated or even contradict it. For instance, local governance programs that focus solely on citizen empowerment through civil society or community-driven development activities may sideline, and thereby undermine, elected local councils and governments. Support for isolated, sector-based efforts to decentralize education services, for example, tends to remain ineffective and unsustainable unless it is aligned with a broader decentralization reform scheme (World Bank 2008).

Lessons and recommendations on how international development partners can best support decentralization reforms are abundant. Yet, success stories of a certain support strategy in one or only a small number of countries are sometimes prematurely presented or misinterpreted as models worth imitating. As Paul Smoke and Matthew Winters have underlined, it is important to properly assess how much is ultimately contingent on the specific reform context of the country in question:

Comparative evidence and experiences can point to what tends to work and what tends not to work under certain circumstances, but the nature of decentralization and local governance reform will likely preclude generalization beyond some broad based conclusions about general paths to supporting reform.

(Smoke & Winters 2011:20)

Among these conclusions, some stand out. First, *design support strategies holistically and avoid fragmented and competing interventions*. No development institution can work on all aspects of a decentralization reform. Support that is focused on specific elements of decentralization—for example, the fiscal dimension, strengthening subnational government and governance, or civil service reform—is not only legitimate; it is inevitable. The crucial point is that it must be conceptualized and delivered with awareness of the necessary linkages between the different parts of the reform, and of the support that other development partners provide for other reform elements. Development partners must work together in pursuing overall decentralization objectives and ensure that their *combined* support is consistent and reflects a holistic understanding of the reform.

Development partner support should therefore address, for example, both the national and subnational levels. Upstream initiatives, such as developing a legal decentralization framework, should run simultaneously with activities to support the emergence of a stronger social demand for reform. Likewise, support to SNGs and civil society are not mutually exclusive. Rather, both are needed, not in isolation from each other, but in a coordinated way. Where programs such as public financial management or civil service reforms, or sectoral interventions that involve the local public sector and have important

implications for intergovernmental systems, exist in parallel, DLG concerns need to be integrated.

Second, *align and harmonize support*. Good development partner support is aligned to partner country strategies and, to the extent possible, tries to work with and use countries' institutions and systems. It is also harmonized in the sense that development partners coordinate their interventions and act on the basis of complementarity and division of labor. These principles may not dominate current development discourse as much as they did 10–15 years ago. Nevertheless, they have lost none of their validity, and they also apply to aid delivered to promote decentralization.

However, it can be particularly difficult to bring these principles to bear in decentralization reforms. Reasons for this can be found both in decentralizing countries and in the behavior of development partners. It is rare for development partners to be strongly directed by a partner country's government leadership. One key reason that Smoke and Winters have highlighted is that

for alignment and government leadership to be feasible, the government must have a coherent policy vision and be willing to adhere to it. Perhaps more than in other sectors, government unity has been a significant challenge for decentralization and local governance policy because there are usually multiple national ministries that have different visions of decentralization.

(Smoke & Winters 2011:6)

This lack of country leadership also hampers harmonization among development partners. One might think that development partners can drive harmonization of decentralization programming. However, development partners themselves often have competing priorities and interests. This concerns both the constellations and behavior of different departments *within* one development agency, and the development community active in a country *collectively*. One institution's priorities, mandate, and perspectives on decentralization may conflict or be incompatible with those of other agencies. For example, if a development partner views decentralization primarily through the lens of public financial management or civil service reform, its support is likely to emphasize national standards and control. If the approach is driven by a particular interest in a sector instead, it is likely that the agency equates decentralization with deconcentration under a national ministry, rather than with strengthening local government responsibility in that sector. Local accountability, governance, and fiscal autonomy will be emphasized by development partners promoting a local government perspective (Smoke & Winters 2011:11).

Different access points to decentralization are often also reflected in the choice of partners that share these views.<sup>10</sup> In this way, development partners may reinforce bureaucratic fragmentation in recipient governments. Responsibility for fragmented support is therefore shared between countries and their development partners.



Third, *focus on processes and institutions for coordination*. Development partners can substitute for neither country reform leadership nor the policy dialogue that is needed among domestic reform actors and stakeholders. But they can try to facilitate that dialogue, invest in processes that may create more shared visions on decentralization, and help build consensus and necessary compromises. This is essentially about coordination, and it opens a wide field for development support.

One possible path of support that deserves more attention is the creation of “common country DLG (Decentralization and Local Governance) engagement platforms” (DeLoG 2011: 36) with the aim of promoting more coherence, innovative funding approaches, and sustainability in country-support activities. This approach has been effectively implemented in only a few countries so far; there is considerable scope for experimentation and learning. Another option is to focus more on policy coordination support in a narrower sense, including possibly “to switch more resources from policy content issues (such as fiscal decentralization, planning, financial management, and functional assignment) to issues of policy coordination and policy network management” (Rohdewohld 2006:5). Specific fields of action that could be particularly suitable for such support include:

- Systems for the collection, processing, and provision of reform-related information and data.
- Provision of policy and management advice.
- Support for capacity development for coordinating bodies.
- Policy studies and research that increase countries’ and development partners’ knowledge about the political economy of decentralization and the relationships between reform actors in the country concerned.

Fourth, *invest more in country monitoring and evaluation (M&E) systems*. Improving monitoring and evaluation of the progress and effects of decentralization, especially decentralizing countries’ own M&E systems, is particularly important to promote better reform design, implementation, and development outcomes (Bartsch 2015). However, despite its importance as a managerial and accountability tool, M&E is still insufficiently used in most countries, and too often neglected in development partners’ support program designs. Some countries receive technical or financial support, mostly in the form of piecemeal initiatives and projects, advice, and funding of individual events, trainings, and studies.<sup>11</sup> Such assistance can be a blessing or a curse. Most of the time it is essential to get a determined country effort in M&E going. Frequently it is also fragmented, sporadic, volatile, overambitious, or incoherent in terms of levels of interventions and targeted regions. It is often insufficiently aligned with partner countries’ needs and not properly institutionalized for sustainability. Parallel M&E systems measuring the same outcomes are also often set up by development partners. This not only increases the costs of programs and projects; it also tends to undermine and weaken national M&E efforts and systems.

Different M&E philosophies, aid modalities, targeted tiers of government, and reporting requirements can hamper further harmonization, but there are also examples of increasing coordination among development agencies in M&E of decentralization (e.g., Nepal and Cambodia).

The need for further improvement in assessing the results, outcomes, and impacts of decentralization, including development partners' support, is unabated. Therefore, efforts in this area should be intensified. In order not to fall into the traps of over-ambition and over-engineering, and to bring M&E closer to partner country realities, the requirements and expectations of these systems should be scaled down. A stronger focus on the political economy of M&E in decentralization is also needed; as with decentralization in general, it is political and institutional incentives that drive politicians, bureaucrats, and other actors to support or oppose M&E efforts.

Fifth, *support capacity development effectively*. In view of the complexity of decentralization and the high demands it puts on a range of actors and stakeholders, capacity development is a timeless requirement for reform success. Therefore, all development partners have capacity development in their support portfolios. Nevertheless, there is room for improvement. One critical issue is the scope of actors that development partners target for capacity development support; it should include elected and appointed public officials at all levels of government as well as members of civil society. Another issue is the way capacity development is delivered. It should be demand-driven, based on joint capacity development strategies, and employed on the job. Too often, capacity development efforts are stand-alone activities with too little connection to important aspects of reform, such as the responsibilities transferred to the local level. A third issue is the continued use of separate project implementation units and other parallel or semi-parallel mechanisms which bypass partner countries' systems. This tends to divert capacity development efforts away from partner institutions and deprive them of learning opportunities.

In addition, there are long-standing unresolved quality issues that affect capacity development in general, not just in the area of decentralization reform support. These include, for example, how to bring technical cooperation under more direct control of the recipient, the right balance between imported assistance and endogenous capacity development, and the motivation of development partner staff to engage in learning processes with country counterparts and stakeholders. In all these areas, development partners should constantly review their practices together with their country counterparts and improve them where necessary.

Finally, *localize the Sustainable Development Goals (SDGs), leave no one behind, and address gender inequality*. To achieve the SDGs, the active participation of efficient subnational structures and actors is essential. For this "localization" process to succeed, it must be shaped actively, constructively, and jointly by the relevant actors in a nationwide process across levels. This is the only way to ensure that actions aimed at implementing and achieving the SDGs at the various levels of government and administration are interlocking and mutually reinforcing,

and that there is room for dynamics and feedback loops top-down as well as bottom-up.

This requires multi-level mechanisms and arenas for dialogue, coordination, and decision-making. By linking national and subnational actors, effective decentralization and local government reforms can help create an enabling environment for localizing the SDGs. Of particular importance are clearly defined functions and responsibilities of SNGs, SNG participation in policy arenas such as national SDG commissions and voluntary national review (VNR) processes, planning and budgeting systems tailored to the functional jurisdiction of the SDGs, and M&E and data systems which capture local SDG achievements and support national monitoring processes (see Chapter 5 for details).

Development partners that support decentralization should therefore consider whether and how their assistance can also help localize the SDGs. This will not be possible everywhere. The importance that governments attach to the SDGs varies greatly, as do decentralization contexts and the status, dynamics, and maturity of reforms. A first step should thus be to develop a common understanding with country counterparts and other development partners of how localization of the SDGs and decentralization are related, and what synergies might be created if the respective support is deliberately linked. While all aspects of the localization process (see Figure 7.3) are potentially useful entry points for support, practice shows that development partners which support decentralization tend to choose fields where they are already engaged.

Further requirements for supporting decentralization reforms arise from the principle of “leaving no one behind” (LNOB) anchored in the 2030 Agenda for Sustainable Development. It suggests focusing on those parts of society that are furthest behind; ensuring equal access to education and other basic services for people living in precarious circumstances, including persons with disabilities and members of indigenous peoples; reducing disparities and discrimination; promoting the social, economic, and political inclusion of all; and ensuring inclusive institutions and ultimately an inclusive society. These obligations cannot be fulfilled at the national government level alone. All this is likely to present opportunities and challenges for decentralization, which is why development agencies should review their support practices and adapt them if necessary.

Even long before the LNOB principle was articulated, development partners were committed to promoting gender equality. However, as was pointed out in Chapter 1, progress in gender equality does not come automatically with decentralization and is not inherent in it. Thus, considerable parts of decentralization reforms and related international development support have so far been “gender blind.” Nevertheless, decentralization offers important opportunities to move gender equality forward. It provides new scope and possible levers for progress, especially by creating space for some autonomous decision-making and participatory processes at the local level, which is closest to peoples’ daily needs and living conditions. This space can be filled with numerous initiatives in support of gender equality, such as empowering women for local office, establishing women quotas in local forums, inclusion of women in local planning processes, and

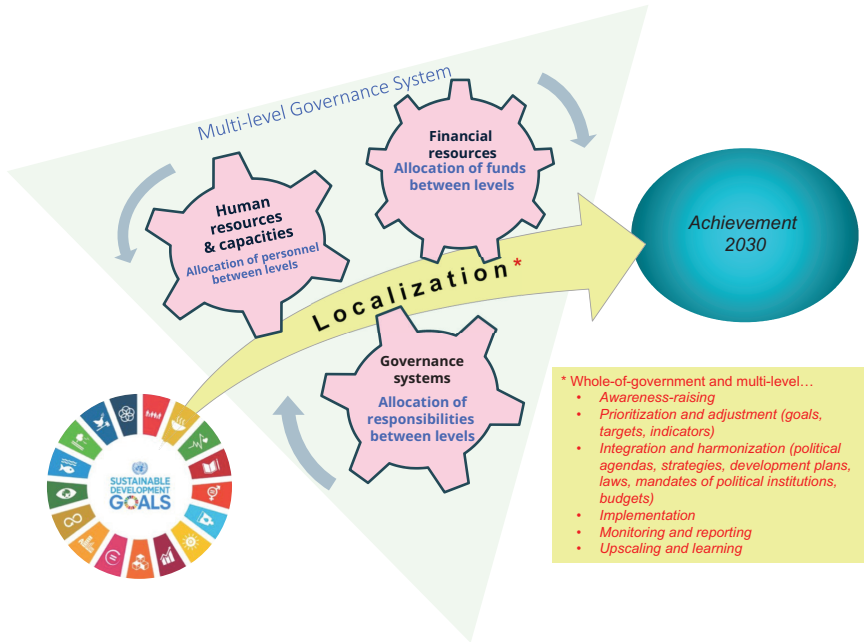


Figure 7.3 Entry Points for Development Partner Support to SDG Localization.

Source: Author.

gender-responsive budgeting. At the same time, the view should be broadened to take action against intersecting forms of inequalities, such as those pertaining to class, caste, religion, and tribal identities (Nazneen 2018). In order to effectively address gender and intersecting inequalities and give them a more important place in practical decentralization support, many international development partners need to develop the skills of their staff and provide stronger incentives to mainstream these issues more firmly in programs and projects.<sup>12</sup>

## 7.4 Development Partner Instruments and Aid Modalities

International development support at large comes in many different forms, and support for decentralization reforms is no exception. At the most basic level, the main distinction is between financial aid, technical cooperation (personnel, training, scholarships, knowledge, and research), and policy engagement. Financial aid may come in the form of general or sector budget support or as a project modality, which is kept outside the partner country's budget. Beneficiaries of financial aid are usually national governments, but considerable financial resources also go to nongovernment actors such as civil society organizations and the private sector to meet an agency's running and program costs ("core funding") or to support a range of processes and outcomes.

On closer inspection, however, this apparent simplicity and clear demarcation between the various instruments and modalities quickly vanishes, and many subgroups and hybrid forms emerge. Project or “non-budget” modalities, for example, can be managed in any number of ways along the alignment spectrum. They can vary from highly integrated projects where activities are consistent with formal partner country government policies and use country systems and procedures to a large extent, to stand-alone projects where activities stand outside national strategies and use parallel systems.

Projects that are not stand-alone can be delivered within a range of harmonized approaches. This includes sector-wide approaches (SWAPs) and pooled funding arrangements such as common basket funds, which are both forms of program-based approaches (PBAs). The term “PBA” is an umbrella term for coordinated development assistance around country-owned policies and strategies. PBAs are not confined to projects. General and sector budget support are by definition PBAs, and even technical assistance may qualify as a PBA.<sup>13</sup> Budget support, especially sector budget support, can sometimes resemble a large ministry project. This is the case when providers of budget support earmark specific areas of funding and require separate traceability in the partner country’s expenditure budget. This deviates from standard financial management procedures of recipient governments and blurs the line between budget support and project modalities (Williamson & Dom 2010:2). Finally, it must not be overlooked that, besides financial transfers, budget support also consists of policy dialogue and capacity development.<sup>14</sup>

In development partner support for decentralization reforms, most if not all of these modalities and instruments play a role. This is positive because different types of instruments have different and complementary strengths and can be used in parallel to achieve different and complementary objectives and a mix of policy, institutional, and development outcomes. The choice and mix of instruments to be used depends on several factors, including the country’s reform context, its level of preparedness for the use of certain instruments, and its reform objectives. It also depends on the presence of international development partners and their various perceptions, mandates, incentives, preferences, and reservations about certain modalities and instruments, and on negotiations between country representatives and development partners.

### ***Budget Support***

In theory, budget support could be seen as particularly suitable for decentralization reforms when (i) national commitment to a decentralization reform is strong and shared by the whole of government, and (ii) national systems—with some technical assistance and the incentives provided by disbursement conditions—can be relied upon to translate national policy into local development results. Budget support increases partner countries’ discretionary expenditures, promotes country ownership, and strengthens budget management (Caputo, de Kemp, & Lawson 2011).

However, most decentralizing developing countries do not meet these requirements. Often, they have only a partial or fragile national commitment to decentralization reform, and there can be serious gaps between proclaimed policy and the institutions needed to deliver the reform. Thus, relying only on budget support with its focus on financial transfers and limited scope for complementary measures is not enough. Experience shows that achieving the objectives of decentralization reforms, such as improved policy frameworks and capacities, or improved service delivery and governance, is not just a matter of injecting more funding into the national budget. In most developing countries, these objectives will only be achieved if and when the overall policy and institutional system itself is strengthened, a set of actors beyond the executive branch of the national government is engaged, and different forms of accountability relationships are promoted. Support must be aimed at helping remove the policy, institutional, and individual capacity constraints that affect the multi-level governance system in general, and SNGs in particular.

In addition, there are limitations in budget support that are problematic in a decentralization reform context. First, policy dialogue and disbursement conditions associated with budget support usually tend to focus on implementation issues related to the use of funds. They are less conducive to stimulating a forward-looking debate on effective policy reforms that may be translated into new policies and institutional changes. Second, capacity development efforts that come with budget support operations tend to focus on fiduciary risks and public financial management reform. The scope for defining a more systemic capacity development agenda that can tackle the multiple policy, institutional, and individual constraints is limited. Third, budget support operations often lack appropriate dialogue and accountability mechanisms related to the disbursement of funds to subnational levels. SNGs may be further disempowered to fulfill their mandates since funds tend to be concentrated at the central level (EC 2016:71–72). All this does not entirely exclude budget support as a modality for supporting decentralization reforms. Using it in a “localized” manner, for instance, in supporting local development policies and enabling SNGs to finance and implement their own development plans, could be a major innovation (Bernhard 2010). In any case, when applied, budget support must take into account the specific support requirements of this reform.<sup>15</sup>

### *Project Support*

Projects<sup>16</sup> have been a long-standing tool in development cooperation, and they are highly relevant for supporting decentralization reforms. They provide financial (off-budget) or technical assistance to support the investments, as well as the needed institutional change and capacity development to implement a decentralization reform. There are many cases where projects may be the most suitable and effective form of aid delivery. They allow development partners to work with a range of implementing partners and contracting arrangements to strategically target interventions and tackle specific obstacles. For example, they

can address insufficient government capacity, support policy development and management, and promote institutional change across a country's governance and administration system. They can also expand cross-sector development and SNG service delivery by promoting vertical and horizontal coordination and partnerships, or by providing assistance to critical stakeholders such as civil society or associations of local authorities, thereby helping to expand the domestic constituency for reform. Conceptualized as “smart projects,” they may also promote a deeper process of policy and institutional experimentation and pilot innovations to test and scale up workable approaches from the bottom-up (EC 2016:85–94).

Where feasible, projects should be integrated into national or sector frameworks and help operationalize an existing national policy. But stand-alone, non-aligned projects, too, may have merit if aimed at increasing participation, strengthening civil society and citizen voice, and addressing the needs of excluded groups—or if there is no suitable national or sector framework in place. However, it must always be clear that bypassing the national government and undermining central and line ministries is not a viable long-term solution if the aim is to have an effective government, which a successful decentralization reform requires. Joint programs and pooled funding are good ways to minimize the number of discrete projects and bring them within an overarching framework to avoid fragmentation.

### *Technical Cooperation*

Technical cooperation is the sharing of knowhow and expertise, be it in the form of personnel (national, regional, or international specialists and consultants), training, scholarships, or knowledge and research to benefit partner countries. Decentralizing countries need to be able to access cutting edge knowledge, technology, and expertise to support their reforms. The strength of technical cooperation is its flexibility; it can be used in a range of contexts and in connection with all reform building blocks that need to be addressed. It can be provided to a range of state and non-state institutions. Expertise can be used, among others, to support capacity development of government and private sector institutions—although it is important to emphasize that technical cooperation and capacity development are not the same (DFID 2006b).<sup>17</sup> It can also be used to strengthen domestic accountability by supporting parliaments, civil society, networking activities, and elections; to complement financial aid instruments by supporting policy analysis, skills development, and planning, and addressing demand-side constraints to implementation; and to tackle exclusion by supporting, for example, gender-sensitive monitoring processes.

However, the value of technical cooperation is not unchallenged. According to its critics (DFID 2006a; OECD 2006; Land et al. 2007; Greijn et al. 2015), it has the following weaknesses:

- It is not always effective in building sustainable capacity and tends to underestimate the importance of partner country ownership for success.



- It is costly.
- It is too often supply-driven and insufficiently coordinated among development partners.
- It is sometimes used by development partners to achieve their aims rather than those of the partner country.
- There are market failures—such as the tying of technical cooperation to the development partner country’s suppliers—which can result in the wrong personnel being provided to the partner country and block opportunities to use more local and regional consultants where demanded.
- There has been a tendency to see technical cooperation as transferring generic knowledge rather than facilitating a process of two-way learning based on changing contexts.

### *Policy Engagement*

Policy engagement (or “policy dialogue”) is another key instrument for supporting decentralization reforms. Generally speaking, it aims to influence policies and practices that have an impact on the course or results of the reform, be they of national or SNGs, parliaments, civil society, or the private sector. Policy engagement may take place at all levels, including sectors, and can have different aims at different stages in the policy process. For example, it can stimulate recognition of the need for new policy; support policy development processes; support greater transparency and accountability within the policy making process; encourage citizen engagement; reform ineffective policies; and monitor and support implementation of policies. Policy engagement depends crucially on communication and credibility. It can take place in a wide range of contexts, both formal and informal. Formal mechanisms for policy engagement include processes for agreeing to and monitoring conditions and benchmarks for aid; budget support and sector working groups; stimulating dialogue between ministries and between state and citizens; facilitating interaction and brokering connections between government, civil society, and other actors; disseminating and debating analyses at seminars and other forums; and building constituencies of support for policy change. Technical cooperation can be fundamental in supporting policy engagement, including support to research institutions in partner countries (DFID 2006a:59–64).

Policy engagement is also a risk management tool in that it enables early dialogue between development agencies and partner countries about worrying trends and significant deviations from commitments. It can complement the other support modalities and instruments in promoting a focus on quality, access, equity, and voice and accountability issues, and draw attention to inequalities, inclusion, and gender. Possible downsides of policy engagement are that it may undermine domestic accountability, raise concerns about development partner interference, and involve high transaction costs. The basis on which development partners are listened to in policy engagement as advisors or sounding boards is their status and role, their financial and other resources, their expertise, and



the personal attributes of their representatives. Coordination and harmonization are essential to ensure coherent policy-related communication as a development community, reduce transaction costs for partner countries, and improve their prospects for efficient and effective policymaking.

### ***Asian Development Bank Instruments and Interventions***

ADB makes significant investments in support of decentralization reforms in Asia. This occurs mainly through loans, technical assistance, and combinations thereof, complemented by policy dialogue.<sup>18</sup> Loans that support decentralization can be (i) core decentralization loans; (ii) sector-based decentralization support loans (often project loans in areas such as health, education, social protection, or multisector/infrastructure); and (iii) public sector management (PSM) support loans with decentralization components (such as public expenditure and fiscal management).<sup>19</sup> Different modalities can exist side by side and be synergistically linked in country partnership strategies (see Box 7.3).

#### **BOX 7.3 SYNERGETIC ADB SUPPORT FOR DECENTRALIZATION IN INDONESIA**

During Indonesia's decentralization efforts in the 2000s, ADB provided financing for community-based programs that were aligned with the emerging decentralization reforms. Subsequently, ADB joined in supporting refinements to the regulatory framework and particularly in providing capacity development for SNGs. The ADB-Indonesia Country Partnership Strategy 2006–2009 stated that “almost all projects in the program would address issues in areas of policy, capacity building, or implementation related to decentralization.” A cross-sectoral focus on fiscal decentralization, centered on a large program loan, was complemented by separate advisory technical assistance projects for on-lending, the environmental impact assessment process, urban infrastructure, and minimum service standards. The sectoral contribution was made, for instance, through the second Decentralized Health Services Project (2003–2010) and the Decentralized Basic Education Project (2001–2008).

Source: ADB (2014a:27)

The loan type most frequently used by ADB for the support of decentralization reforms and PSM more widely is *policy-based lending* (PBL). Initially aimed at relieving balance-of-payment distress, PBL has gradually evolved to focus on supporting agreed policy and institutional reforms.<sup>20</sup> Funds are provided as budget support to national and (if national laws permit) SNGs against an agreed set of policy actions specified in a policy matrix (formerly referred to as policy conditionality) and are subject to the recipient country's own fiduciary systems. The policy reforms that PBL supports have shifted over time, moving from short-term macroeconomic adjustment and removal of relative price distortions, notably in agriculture, to reforms dealing with longer-term policy and institutional development. During 2008–2017, public sector management reforms accounted for

almost two-thirds of the value of all PBL operations approved by ADB (ADB 2018:23), with a particular focus on public financial management, as well as decentralization and the strengthening of service delivery at subnational levels. Some key design features, such as the use of conditions and results frameworks, have also changed over time (ADB 2018:3–5).

While it is difficult to measure its effects in a methodically sound manner, there is much to suggest that PBL has not just the *potential* to promote fundamental reforms, but that it *has in fact* effectively supported major public policy reforms across a broad range of sectors and policy areas in a variety of countries. In any case, its success rate doubled during 2008–2017 (ADB 2018). Its possibilities as a transformative instrument are brought to bear in particular when, in addition to budget support, non-lending inputs such as high-quality analytical work, continuous and structured policy dialogue, technical assistance, and knowledge transfer are also provided and combined with support from other international development partners. In addition, ADB-led PBL has helped to unite international development partners around common reform agendas (ADB 2019a). It has provided ADB and other development partners with a seat at the policy negotiating table and with opportunities to influence reform-minded governments, reform agendas, and processes. Partner country governments appreciate the policy advice, especially through the provision of technical assistance, as well as the long-term partnerships and policy dialogue on complex reform agendas that come with PBL, even though funding is usually their key motivation for requesting PBL.<sup>21</sup>

However, there are also PBL characteristics that continue to give cause for criticism. These include the risks involved in budget support that may not be sufficiently addressed in PBL operations, in terms of either risk assessment or risk management plans. Doubts also remain about whether policy-based loans that are directed to the government's treasury translate into sufficient resources to realize reforms at subnational levels and with SNGs, which is obviously crucial for decentralization. Against this backdrop, “ADB will seek opportunities to include social accountability approaches in PBL operations such as by including policy actions on public expenditure tracking, participatory auditing, and citizen consultation and feedback mechanisms” (ADB 2019b:17).

*Technical assistance* can have considerable influence on PBL design and improvement, as well as on reform implementation and facilitation. In both areas, the use of technical assistance is widespread. PBLs are generally accompanied by technical assistance, either stand-alone or integrated.<sup>22</sup> In some cases, PBLs, technical assistance, and investment projects are designed as a package. Some policy reforms can require several technical assistance projects implemented over many years; this is one of the reasons technical assistance often continues long after the PBL funds have been disbursed. However, there are also cases where the delivery of technical assistance is criticized as being too slow, or the assistance is underused (ADB 2018:54–55).

ADB's technical assistance comes in various forms, currently either as “transaction technical assistance,” which supports the design and implementation of

ADB operations (mainly project preparatory work), or as “knowledge and support technical assistance,” which includes, *inter alia*, general institutional capacity building, policy advice, and research (ADB 2020:38).<sup>23</sup> Where decentralization reforms are supported, technical assistance is mostly policy and advisory, be it policy-oriented or with a more operational focus.

Dedicated technical assistance activities are essential for linking policy actions with outputs and outcomes. They support hands-on implementation; help strengthen governance, organizational capability, and institutional capacity; and enhance individual skills and competencies within and outside government. Technical assistance is most often provided by firms and individual consultants. Its outputs many include mappings; studies and proposals in preparation of policy decisions, laws, and regulations (such as functional assignment or fiscal arrangements); training workshops; or assistance in the M&E of reform elements and implementation. At the same time, it allows for flexibility to respond to changing government reform priorities.

But there are also areas for improvement. Successive ADB evaluations (2007, 2014b) showed a pattern of persistent limitations of technical assistance performance. The most recent evaluation by ADB’s Independent Evaluation Department (ADB 2020) highlighted the need to review the contribution of technical assistance to knowledge solutions and shift quality review from compliance to adding value and sharing knowledge. It also raised concerns that ADB’s dependence on consultants resulted in its inability to deliver tailored solutions of consistent quality. In addition, an audit of the technical assistance reforms by the bank’s Office of the Auditor General (OAG) recommended that ADB establish a systematic filing of lessons learned so that they can be searched and reflected in the design of future technical assistance operations.<sup>24</sup>

A relatively new ADB loan type with the potential to diversify decentralization financing modalities is *results-based lending* (RBL), which links the disbursement of financing with the achievement of results. After its introduction in 2013 for a 6-year pilot period, RBL is now being mainstreamed as a regular lending modality. ADB introduced RBL as part of broader efforts by international development partners to promote the use of program systems for results-based financing as a means of enhancing development effectiveness. Following this logic, RBL aims to strengthen incentives and accountability for delivering and sustaining results, improve the efficiency and effectiveness of government-owned programs, promote institutional development, enhance development effectiveness, and support development coordination.

ADB has already implemented RBL at subnational levels and in countries where it has invested heavily in previous decentralization reforms, such as Indonesia (ADB 2019a) and the Philippines. It will also seek to increase the use of RBL for sector-focused PSM operations and for improving sector governance and institutional capacity. With its sectoral focus, RBL addresses a key area of any sincere decentralization. However, this does not automatically lead to the realization of decentralization goals. It is important to ensure that dedicated support for decentralization, support for neighboring public sector reforms in areas such

as civil service and public financial management, and support for sector reforms are well coordinated and go hand in hand. How the initial pilot RBL operations have been related to these fields, and how they have been embedded in countries' decentralization contexts, still needs to be investigated in more detail.

## 7.5 Conclusion

Many factors play a role if a decentralization reform is to take a positive course. Well-designed policy frameworks and implementation strategies significantly increase the probability of success. The scope and pace of the envisaged reform as well as the sequencing of reform steps are particularly important variables. Different sequencing options allow for wide variation and adjustment to specific country circumstances, be it with regard to the order in which political, administrative and fiscal decentralization are approached; the way in which the transfer of responsibilities to subnational levels and the development of subnational capacities are linked; or even the temporary implementation of asymmetric arrangements where certain territorial entities are treated differently from the others. How well policies can be discussed, strategies and action plans negotiated, and policy implementation monitored depends, in turn, on intergovernmental and cross-level linkages and the existence and functioning of coordinating institutions and mechanisms.

The manner in which all these issues are addressed in practice varies substantially from country to country. This is a sure sign of how much country context has a bearing. Why and how it matters is one of several big questions that political economy approaches and analyses help explain by illuminating the extent to which the adoption, design, implementation, and modification of decentralization reforms as well as the actors involved are driven by political and bureaucratic rationales, dynamics, and incentives.

This also applies to international development partners and how they affect reforms in decentralizing countries. While there are countless points of entry and focus areas for which valuable support can be provided, there are also factors—basically the incentives that drive their own interests and objectives—that may cast doubt on the benefits of some involvement for decentralization. Lessons on how international development partners can best support decentralization reforms are abundant. Yet, here too, due to the diversity of contexts, recommendations have to be limited to some general but important avenues of reform support.

Compared with other aspects of decentralization, the issue of aid modalities available to development partners for their support of such reforms is discussed much less frequently and prominently. This is a failure, for what the right mix of instruments is to effectively support a decentralization reform under specific country circumstances is an intriguing and perennial question. On the surface, this always seems to be about the same classes of instruments—budget support, project support, technical cooperation, and policy engagement. However, these instruments, in general, are also under continuous discussion and subject to modification and improvement. ADB's work provides interesting and current

examples. Relating some of this more concretely also to decentralization reforms and their support has clear potential to improve implementation.

## Notes

- 1 Asymmetry is a feature of state organization in all parts of the world. It can be used in a range of different systems, i.e., in federal states, in devolved contexts, and in less decentralized unitary states, and may have a constitutional basis or rely on legislation (International IDEA/Constitution Transformation Network 2018).
- 2 Nevertheless, one finds interesting arguments in the literature for taking action rapidly. Shah and Thompson (2004:23), for example, suggested that “Big Bang” decentralization might reduce the resistance of the bureaucracy because it does not have time to regroup and fight changing conditions, as it would be able to do with gradual change. Smoke (2013:24), however, argued that the impact on the bureaucracy could also be the other way around, namely that rushing the reform could threaten central bureaucratic tolerance. He therefore put forward another reason for rapid action: unduly slow reform could disillusion proponents and reinforce centralist practices.
- 3 The issue of transferring sector functions as part of Cambodia’s DLG reforms illustrates how the implementation of even well-designed DLG programmes is influenced by political considerations (see Chapter 8 on Cambodia).
- 4 Decentralization reforms have often been developed by ministries responsible for local governments with substantive support from international development partners.
- 5 A more in-depth discussion of political economy and gender can be found in GADN (2018).
- 6 Several studies have been undertaken that apply a political economy perspective to individual countries’ decentralization reforms. This includes comparative studies by USAID (2010) as well as the French Development Agency and the World Bank (Dafflon & Madiès 2013). Most of these studies are on countries in sub-Saharan Africa; Asian countries are significantly underrepresented.
- 7 As the vast majority of countries worldwide have already taken steps towards decentralization, however limited and inconsequential they may be, adjustments and redesigning will be much more often the issue than a true reform start.
- 8 Good overviews, including annotated bibliographies of key readings, are provided on the website of The Policy Practice (<http://thepolicypractice.com/>) and by Mcloughlin (2014).
- 9 Why it is difficult for international development partners to work so “politically”—despite the existence of these tools—is vividly described by Romeo (2012:15–16).
- 10 Nevertheless, one should beware of oversimplifications. Development agencies are not monolithic actors. When incentives and interests of departments within an agency in relation to decentralization in general or in a certain country differ, an important question is where in the agency the lead for its support and its coordination is institutionally anchored (and whether support can be delivered in a consistent manner). Furthermore, there are certain international development partners with mandates that favor or exclude certain support approaches or with a firmly established political or corporate image and reputation that is likely to determine where it focuses its support.
- 11 In addition, there are large-scale multi-donor programs and trust funds for statistical capacity development in particular. These are usually for partner country

M&E capacity and systems in general, and not specifically for M&E of decentralization, although the latter may benefit.

- 12 ADB offers a variety of capacity development tools on gender, such as an e-learning course on gender (<https://elearn.adb.org/course/index.php?categoryid=64>) and checklists and tools for gender work in sectors ([www.adb.org/themes/gender/checklists-toolkits](http://www.adb.org/themes/gender/checklists-toolkits)).
- 13 This is why PBAs, SWApS, and pooled funds are mostly not seen as aid instruments in their own right but rather as categorizations of aid flows or approaches to aid management and delivery that may involve a number of instruments.
- 14 In the context of budget support, capacity development can be promoted either by funding relevant components of a partner country strategy directly or by sponsoring activities in parallel using project modalities.
- 15 The European Commission (EC 2016:81–84) outlined three types of budget support that may be considered with regard to supporting decentralization reforms: (i) to decentralization reforms and local authority systems development, (ii) to decentralized service delivery, and (iii) to place-based development and territorial development policies. However, it also made clear that these “may benefit from complementary project aid operations to ensure space for policy experimentation that can inspire the design of innovative programmes for local/territorial development” (81).
- 16 According to the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD-DAC 2018), a project “is a set of inputs, activities and outputs, agreed with the partner country, to reach specific objectives/outcomes within a defined time frame, with a defined budget and a defined geographical area. Projects can vary significantly in terms of objectives, complexity, amounts involved and duration. There are smaller projects that might involve modest financial resources and last only a few months, whereas large projects might involve more significant amounts, entail successive phases and last for many years. A large project with a number of different components is sometimes referred to as a programme.”
- 17 While capacity development is the process whereby people, organizations, and society as a whole unleash, strengthen, create, adapt, and maintain capacity over time, technical cooperation is one of several possible inputs into the capacity development process (OECD 2006; Land et al. 2007).
- 18 By and large, ADB and other international financial institutions (IFIs) tend to offer larger loans and some grants (the latter sometimes channelled through the IFIs by bilateral development partners), while bilateral partners generally offer grants. IFIs tend to work largely at national level where large loans are usually made (ADB 2010:24).
- 19 Between 1999 and 2013, decentralization lending covered 10% of lending volume (USD 1.7 billion for 17 loans) and funded programs in Cambodia, the Philippines, Pakistan, and Indonesia (ADB 2014a:22).
- 20 Responding to economic and fiscal downturns and disasters triggered by natural hazards are further purposes of PBL.
- 21 Governments may also prefer PBL for other reasons, such as wanting to avoid the high transaction costs of conventional projects, or a preference for using their own country systems, or even as a creative response to limited progress in the design of new investment projects (which is ADB’s most used lending modality).
- 22 It is estimated that 83% of PBLs approved in 2008–2016 were supported by at least one technical assistance project (ADB 2018:25).
- 23 Before 2018, ADB had four categories of technical assistance (TA): (i) project preparatory TA, (ii) policy and advisory TA, (iii) capacity development TA, and (iv) research and development TA.

- 24 To improve the speed, relevance, and quality of TA operations, a set of reforms was approved in 2017 (ADB 2017). Their implementation and impact are periodically monitored, most recently in 2021 (ADB 2021).

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# 8 Decentralization, Local Governance, and Localizing the Sustainable Development Goals in Cambodia

*Rainer Rohdewohld*

## 8.1 Constitutional and Legal Framework for, and Core Functions of, Subnational Administration

Decentralization reforms in Cambodia must be seen in the context of rebuilding the state after several decades of armed conflict. Cautious efforts to strengthen local institutions and community groups were initially linked to the reconstruction and rebuilding of small-scale rural infrastructure, and the development of livelihood opportunities for refugees and internally displaced persons. These efforts were predominantly driven and financed by the United Nations (UN) system and bilateral/multilateral development partners. State institutions were often totally absent below the level of districts, perhaps with the exception of military and police installations. Public services provision was often left to national and international civil society organizations such as nongovernmental organizations (NGOs) and charities. In a way, a relatively strong role for local actors and local institutions was the flip side of a weak central government.

The initial focus of the government's policies on deconcentration can probably be explained by its desire to re-establish its authority at the central level before moving down to lower levels of the territorial administration. It also suffered from a dire lack of resources, and inadequate legal and regulatory framework and capacity. Researchers have opined that

the move to decentralize decision-making authority over resources and service delivery from the central to provincial level was made not because the central government and the party [*the Cambodia People's Party*] were empowering local authorities in pursuit of good governance practices, but because it was imperative to the survival of the collapsing central government at the time.

(Eng & Ear 2016:210)

The slow pace of rebuilding state institutions, the state's regulatory capacity, and its ability to provide services picked up after the turn of the century. This progress brought an increasing number of laws, rules, and regulations. The passing of the Law on the Administrative Management of Communes/*Sangkats* (LAMC)<sup>1</sup>

in 2001 signaled the beginning of a new, more formal, and more structured implementation of decentralization.

Since 2001, Cambodia has used all three modalities of decentralization.<sup>2</sup> Initially, the term “decentralization and de-concentration” (D&D) was being used, and thus a decisive 2005 policy paper was named *Strategic Framework for Decentralization and De-concentration Reforms* (RGC 2005) where the term “decentralization” was actually used synonymously for “devolution.”<sup>3</sup> In 2010, the D&D nomenclature was replaced by the term “Sub-National Democratic Development” (SNDD)<sup>4</sup> which emphasized the intention to create political space at the subnational level as a precondition for economic and social development and poverty reduction.

The case of Cambodia shows the extent to which political economy considerations determine reform trajectories and shape decisions on concepts and strategies. Cambodia is a monarchy and a unitary country. Due to its history, and perhaps enforced by its French colonial past, the concept of a unified administration and of a hierarchically structured chain of decision-making features strongly in the political philosophy of the country. The 1993 Constitution of the Kingdom of Cambodia (as amended in 1999) does not indicate any notion of a decentralized state structure or of local self-government. Article 3 provides that the Kingdom of Cambodia is an indivisible state, and Article 7 stipulates that the King of Cambodia “shall reign but not govern.” Article 145 breaks down the territory of the Kingdom into provinces, districts, municipalities, *khans*,<sup>5</sup> communes, and *sangkats*; these territorial divisions are to be governed in accordance with “an Organic Law” (Article 146).

The regulatory framework for SNA consists of two “organic laws” and other relevant laws passed by Parliament, and a significant number of lower regulations such as Royal Decrees and sub-decrees.<sup>6</sup> For considerable time, it has been characterized by conceptual tensions and lack of alignment between the dimensions of political and administrative decentralization on the one hand, and fiscal decentralization on the other. These discrepancies are also symbolized by different parts of the government not having a shared vision of reforms, notably the Ministry of Interior (MOI), which chairs the National Committee for Sub-National Democratic Development (NCDD), and the Ministry of Economy and Finance (MEF), which chairs the Public Financial Management Reform Program Steering Committee.

The organic laws mentioned in Article 146 of the constitution are the March 2001 Law on the Administrative Management of Communes/Sangkats (LAMC), and the 2008 Law on Administrative Management of Capital, Provinces, Municipalities, Districts and Khans.<sup>7</sup> Both laws are accompanied by election laws for the respective tier of SNA.<sup>8</sup> The 2001 LAMC recognized communes and *sangkats* as legal entities with legislative and executive powers in line with central government laws. Legislative powers are exercised by resolutions of the council, which is elected every five years by a system of proportional representation (Niazi 2011).

The 2008 Organic Law on Administrative Management of Capital, Provinces, Municipalities, Districts and Khans defines these territorial units as legal

entities with an elected council. These entities “promote democracy through public representation, local autonomy, citizen consultation and participation, responsiveness and accountability, promotion of quality of life, equity, integrity and transparency, and anticorruption practices” (ibid.:9).

While these two laws form the centerpiece of political and administrative decentralization, the fiscal arrangements for SNAs are strongly influenced by separate laws on public finance and budgeting which express a strong notion of centralization and national-level control. A 2008 Law on Public Finance Systems stipulated that the annual central government budget allocates a financial envelope to subnational administrations. SNAs needed to submit their plans and budgets to the MEF for approval. “Importantly, procedures for approval of the budget are limited to approvals by the National Assembly and do not refer to approvals by elected councils, as provided in the Organic Law” (Niazi 2011:23).

The 2011 Law on Financial Regime and Property Management of Sub-National Administration (often called the Sub-National Finance Law) established three revenue sources for the provinces, districts, municipalities, and *khans*: (i) local sources such as tax and non-tax revenue from administrations’ property rentals or service fees; (ii) national sources such as transfers of funds and service fees from functions carried out by the councils on behalf of national government institutions; and (iii) other sources on the basis of an agreement or contract signed with the line ministries when acting as agent on behalf of another tier of government (OECD/UCLG 2019a).

For the levels of community/*sangkat* (C/S), districts, and municipalities, fiscal transfer funds have been established by sub-decrees<sup>9</sup> which channel financial resources from the national to the subnational level. They may also channel resources from nongovernmental sources such as international development partners to these subnational entities. In 2016, a Sub-National Investment Fund (SNIF) was established with the aim of providing funds for investments of all three levels of subnational administration in civil works such as sanitation, health, infrastructure, and education.<sup>10</sup> The allocation of funds is guided by annual performance assessment criteria on which districts are ranked; top scoring districts are then eligible to proceed with preparation and submission of an investment proposal (as linked to the district’s three-year investment plan).

### *Subnational Administration Functions*

The functions of subnational administration include devolved (assigned) functions, delegated functions, and deconcentrated functions. Following the 2008 Organic Law, Cambodia has designed an elaborate process of functional assignment.<sup>11</sup> In doing so, it has clearly benefited from previous experiences elsewhere in the region, especially the “Big Bang” decentralization reforms in Indonesia after 1999–2000, and the earlier experiences with the Philippines’ Local Government Code of 1991. Despite this well-planned approach, the assessment by Niazi (2011:18) that “roles and functions of different tiers of government are not well defined and the assignment of functions is vague” remained valid

for several years. Strong support by the Secretariat of the NCDD (NCDD-S) and concerted action by several development partners for functional assignment processes in sectors did not translate into substantive policy decisions (see below). As a result, until December 2019—more than ten years after passing the 2008 Organic Law—most of the devolved and obligatory functions of the district/municipal level had not been determined, and the permissive functions at this level had never been taken up in a significant manner because of a lack of funding and legal clarity (EU DAR 2018).

In December 2019, the Royal Government issued four sub-decrees which have the potential to significantly shape the functional assignment of the district/municipal and provincial level, and the institutional setup at both levels (see below).<sup>12</sup> All sub-decrees will require follow-up regulations, technical guidelines, and administrative rules before they can be operationalized fully. Still, it is a decisive step toward transferring real functions and their associated resources to the subnational levels, and an important step toward creating a unified administration at this level.

### *Functions at the Commune/Sangkat Level*

Article 42 of the 2001 LAMC distinguishes two types of functions: (i) the function “to serve local affairs for the interests of Commune/*Sangkat* and of citizens” (in other words, a general mandate regarding local matters); and (ii) an agency function in “representing the State under designation or delegation of power of the State authority.” The general mandate is further specified in Article 43 to include maintaining security and public order, managing necessary public services, encouraging the creation of contentment and wellbeing of the citizens, promoting social and economic development, protecting and preserving the environment and natural resources, reconciling people’s concepts for the sake of mutual understanding and tolerance, and performing “general affairs to respond to people’s needs.” Article 45 lists several functional areas where jurisdiction of the C/S level is excluded.<sup>13</sup> In April 2002, a Sub-Decree on Decentralization of Powers, Roles and Duties to Commune/*Sangkat* Councils determined the C/S functions in more detail. A primary responsibility of C/S councils is the preparation of a five-year commune development plan (CDP) and an annual commune investment plan (CIP), funded through the C/S Fund.

Delegated functions where the C/S level acts as agent of the national administration include, for instance, election registration and civic registration.

### *Functions at the District/Municipality Level*

The 2008 Organic Law was a major step in developing further the roles and mandates at the subnational level. It gives the councils at provincial, district, and municipal levels a broad mandate to make “legislative and executive decisions” (Art. 29). Article 36, which details the issues on which decisions or bylaws can be made, mentions such examples as “preparation for receiving new functions, duties and

resources in accordance with this Law,” “obligatory functions,” and “permissive functions.” Similar to the C/S level, councils need to approve an annual budget, a three-year rolling investment program, and a five-year development plan.

There has been little progress regarding the permissive functions mentioned in Article 36 of the 2008 Organic Law. Despite the preparation of further legal and technical specifications, it seems that few councils at the district and municipality level have ventured into this area. A 2018 survey conducted by the European Union—Decentralization and Administrative Reform (EU-DAR) Programme in Battambang and Kandal provinces found only a few initiatives which clearly came under the definition and understanding of permissive functions and followed the prescribed procedure (which includes a council decision to take up such a permissive function). Reasons for this included lack of awareness or understanding of the concept, hesitation by the councils to engage in permissive functions unless this had been cleared and endorsed by higher levels of the state administration, and the dominating role of the board of governors or the administrative director in running the affairs of the SNA. The study also found cases where budget allocations for permissive functions were rejected by the provincial department of finance, which would clearly contravene existing laws and regulations (EU DAR 2018).

The obligatory functions of each level were not defined in the 2008 Organic Law but were expected to be determined by a review process coordinated and managed by the NCDD<sup>14</sup> (see below). Key priority sectors for such a review included (i) agriculture; (ii) education; (iii) forestry, natural resources, and environment; (iv) health, nutrition, and services; (v) industry and support to economic development; (vi) land use; (vii) electricity production and distribution; (viii) water management; (ix) infrastructure and facilities; and (x) special local needs, including tourism, historical sites, and cultural heritage.

Between 2010 and 2016, with substantial technical and financial support from development partners, the NCDD arranged for functional assignment exercises in education, health, social affairs, agriculture, forestry, fisheries, rural development, and irrigation. Comprehensive diagnostic work was done in detailing current functions and sub-functions in the sectors, their funding and staffing patterns, and proposals for the future assignment or delegation of functions to the subnational level. However, no major decisions were taken as the process stalled because of political resistance from the sectors; often, the financial implications of further transfers were a major stumbling block. It was only in solid waste management, access to primary health care, and preschool education and kindergarten where functions had been transferred (OECD/UCLG 2019b).

In summary, one can argue that from their establishment in 2008 until late 2019 the district and municipality levels have not played a significant role in service delivery. The concept note for the next ten-year phase of the decentralization reform program (NP-2) acknowledges that

the division of powers, roles and responsibilities for implementing the transferred functions in delivery of necessary public services between the

national level and SNA and between the SNA and SNA has not been clear in accordance with the decentralization policy “to move public services closer to the people.”

(NCDD 2020:4).

Limited autonomy and insufficient transfer of staff and resources are additional weaknesses in the functionality of the district and municipal level according to the concept note.

The four sub-decrees promulgated in December 2019 (RGC 2019c) are set to change this situation dramatically. The two sub-decrees dealing with the district/municipal level devolve a positive and closed list of sector functions to this level, and delegate a significant number of functions in the education, youth, and sports sector to the districts/municipalities. Devolved functions can be found in land management and planning; rural development; water resources, natural resources and environment; mining and energy; agriculture, including fisheries and forestry; public works and transportation; the industry and commercial sector; and culture and religion. There are special arrangements for Battambang province where education, youth, and sports functions were transferred in an earlier pilot modality.

The decrees determine the institutional setup of the district/municipal administration and stipulate the integration of line offices of all sectors under the management of the DMK structure (see below). The institutional setup at this level furthermore includes offices dealing with issues like planning, human resources (HR) management, and internal control.<sup>15</sup> The decrees also make provisions for the transfer of financial resources, assets, and human resources.

Chapter 5 of the 2019 sub-decrees 182 and 184 deals with the intergovernmental relations between the different levels of administration upwards to the provincial and national level, and downwards to the C/S level. While a strong notion of national/provincial direction and control remains, the sub-decrees are clear that the SNA is “responsible for managing, executing and performing the obligatory functions within its jurisdiction.”

### *Functions at the Provincial Level*

The 2008 Organic Law applies to the provincial level as well; however, the functional assignment process described earlier focused significantly on the district/municipality level. Because provincial departments of the line ministries are responsible for discharging deconcentrated functions, the role of the province in the political and administrative setup is quite strong; up to now, the existing institutional weaknesses at the district/municipality level has done little to challenge this provincial dominance.

The December 2019 Sub-Decree No. 193 ANK.BK on the Assignment of Health Management Function and Health Service Delivery to the Capital and Provincial Administration transfers the health management function as well as certain health service packages<sup>16</sup> to the provincial level, including the capital



city, Phnom Penh. Article 4 furthermore states that the capital and provincial administrations “shall delegate Health Management Function and specific Health Service Delivery” to the lower levels of SNA. In other words, the sub-decree applies first the modality of devolution (assigning health functions to the provincial level) and then the modality of delegation (from the provincial level to the next two levels of SNAs). The devolution of functions becomes effective from 1 January 2020, while the timeframe for the delegation will be from “2020 onwards.”<sup>17</sup>

Article 20 of the sub-decree lists the roles and responsibilities which remain with the national Ministry of Health, including policy and strategic planning; setting of treatment protocols, quality standards, and technical standards; HR management functions; defining standard lists of medicines, medical supply, and medical equipment for hospitals and health centers; and procurement and distribution of such items. Article 17 includes the stipulation that the provincial administration can implement additional functions of the National Health Program on behalf of the Ministry of Health—in other words, under a delegation arrangement. The sub-decree also directs the transfer of financial resources, physical assets, and human resources. Article 15 determines the establishment of a health department as part of the provincial administration “through the integration of the current structure of the Capital and Provincial Health Department.” This health department will supervise all referral hospitals, operational district offices, health centers, and health posts within the province.

The concept note on the new NP-2 indicates the political will to sharpen the division of responsibilities between SNAs and the national level. The provinces should focus on issues such as strategic development planning and investment programming and their overall support and monitoring and oversight of the SNAs. The district and municipal administrations are regarded as the main provider of public services to citizens. There is also the intention to differentiate more between rural and urban SNAs at this level. The C/S administrations are rightly seen as the “first point of contact for citizens with government” and will maintain their responsibility for some local functions in education, health, and social services as well as for development, operation, and maintenance of infrastructure (NCDD 2020).

### *Institutional Arrangements of Subnational Administrations*

At the C/S level, the main institution is the *council* with a membership of between 5 and 11 councilors who are directly elected for a five-year period. The election is based on party lists. The council has a chairperson and two deputies. A C/S clerk will be appointed by the MOI and is part of the MOI establishment, but the council may “employ staff who is not in the State framework to assist its affairs as it is required by the needs and necessity and decision of the ruling Commune/*Sangkat* Council” (Art. 29 of the LAMC).

At the provincial, district, and municipal levels, the institutional setup is more elaborate. Again, the council is the main decision-making body; it is elected

indirectly by members of the C/S councils. A council must establish at least three committees (a technical facilitation committee,<sup>18</sup> a women's and children's affairs committee, and a procurement committee) but can also establish more committees if necessary.

For each SNA, a *board of governors*, consisting of the governor and two or more deputy governors, is appointed by the national government either by Royal Decree (in the capital city and the provinces), or by a sub-decree (in municipalities, districts, and *khan*). The appointees are senior officials of the MOI and are not members of the councils. The board provides comments and advice to the council, reports to the council, implements decisions of the council, and in general supports the council to fulfill its functions, authorities, and duties in accordance with the provisions of the 2008 Organic Law. As Niazi (2011:11) has pointed out: "The role of the board of governors is essentially administrative and advisory. They provide advice to councils and implement council decisions but cannot make decisions in the jurisdiction of the council." In 2017, Sub-Decree No. 240/2017 delegated certain personnel management functions to the board.

The percentage of female governors and deputy governors has remained low. Available data for 2014 indicate that there has been no female provincial governor, while 24% of the provincial deputy governors have been women. At the district/municipal level, there were two female governors (1% of the total), and 186 female deputy governors (29% of the total) (MoWA 2014a).

As the members of the board are chosen from within the MOI, with limited influence by the councils on their appointment or dismissal, they are likely to have close linkages to the national level. Probably the same can be said about another key functionary of the council, the administration director, who is appointed by the minister of the MOI and runs the council's administration on a daily basis. The administration director reports and is accountable simultaneously to the council and the board.

Staff of the council can either be appointed by the council, appointed to work with the council, or re-deployed to the council in accordance with the provisions of the 2008 Organic Law.

The governor acts as representative of the ministries and institutions of the Royal Government of Cambodia in supervising, coordinating, and directing all line departments and units of the government ministries and institutions that operate within the jurisdiction of the council. The governor furthermore represents the Royal Government and relevant ministries and institutions on issues related to security, social and public order, law, and human rights within the jurisdiction of the SNA. In the local context, the governor holds an extremely powerful position.

Since the D&D policies have become more structured, the issue of creating a *unified administration* of the SNA has been an essential element of the debate. At the level of the provinces and districts/municipalities two sets of administrative institutions continued to co-exist until late 2019: deconcentrated units of national line ministries, which come under the overall coordination of the governor in his/her role as representative of the Royal Government; and council units discharging

functions which have been devolved or delegated to the council. Financially, the deconcentrated branch of the SNA continues to be much more powerful (see ADB 2018). Without a clear mandate and with very limited fiscal space, the elected councils struggled to make themselves useful and to gain legitimacy with the local communities. Human resources management was another critical issue in creating unified administrations at the subnational level and was neglected for a long time by the Ministry of Civil Service; the required legislation was enacted slowly between 2016 and 2018.<sup>19</sup>

The December 2019 sub-decrees completely change the institutional setup at provincial and especially district/municipal level; once implemented fully, they will finally operationalize the unified administration. At the district and municipality levels, the sub-decrees place the deconcentrated offices of the sector departments under the control and leadership of the elected councils.<sup>20</sup> The future district administration will include technical offices for (i) land management, urban planning, construction, and land; (ii) legislation and local mediation; (iii) agriculture, natural resources, and environment; (iv) economic and community development; (v) social affairs and welfare; and (vi) one-window service offices (OWSO). Having such offices as part of the SNA structure will allow the councils to finally design and approve policies, programs, and expenditure priorities in a horizontally integrated manner, and thus improved the conditions for integrated delivery of local services. As part of these changes, approximately 20,000 formerly national civil servants have been placed under the unified administration at district and municipality level, and another 20,000 or so staff in the health sector have been placed under the provincial administration.

## 8.2 Basic Data on Subnational Administrations

According to available data, there are more than 1,800 subnational entities, including 1,405 communes, 241 *sangkats*, 162 districts, 24 municipalities, 24 provinces, and the capital city Phnom Penh with its 14 urban districts (*khan*). Below the C/S level there are more than 14,000 villages which are not regarded as SNAs (RGC 2019d: vi).

The number of elected councilors at the various levels of subnational administration can be seen in Table 8.1. At all levels, women account for less than 20% of councilor positions. At the C/S level, the 2017 figures indicate a slight decrease from the 2012 election in which 2,038 women were elected (17.8%). There are 128 female commune chiefs (7.8%), a slight increase over 2012 when 95 women were commune chiefs (5.8%) (COMFREL 2017). While these figures are still low, the trend since the first C/S election in 2002 has been encouraging (CDRI 2012). The figures in Table 8.1 show that at the district/municipal and at the provincial level the percentage of female councilors after the 2019 election is higher than after the 2014 election when women represented 13.2% of the provincial councilors (including Phnom Penh) and 13.9% of the district/municipal councilors (MoWA 2014a).

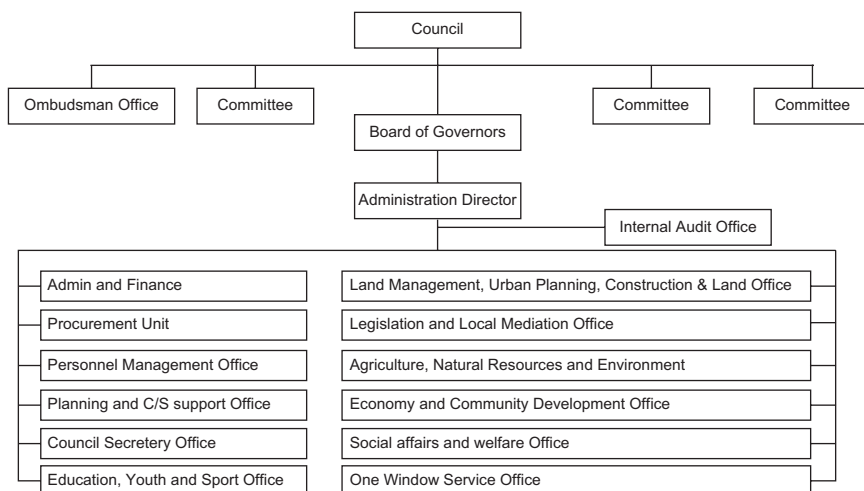


Figure 8.1 Structure of the District Administration in Cambodia after 2019.

Source: Sub-Decree No. 184 ANKR. BK, dated 2 December 2019, on the Functions and Structure of District Administration.

Table 8.1 Number of Elected Councilors (2017/2019, by gender) (Cambodia)

Level of Subnational Administration	Number of Councilors				
	Male		Female		Total
	Total	in %	Total	in %	
Commune/sangkat (2017)	9,633	83.2	1,939	16.8	11,572
Districts and municipalities (2019)	2,933	82.5	622	17.5	3,555
Provinces (2019)	465	83.2	94	16.8	559

Source: NCDD-S.

While the share of subnational expenditure has increased over time, the annual budget for subnational governments remains very low. In 2015, 8.5% of actual total general expenditures were undertaken by subnational administrations (2008:6.6%) (ADB 2018:15).<sup>21</sup> Table 8.2 indicates the average expenditures of the SNA for the years 2014–2016 by type.

According to the Organisation for Economic Co-operation and Development/United Cities and Local Government (OECD/UCLG), in fiscal year 2016 SNA current expenditures “represented 77% of the total expenditure incurred at the subnational level, of which 63% corresponds to provinces, 18% to districts, and 19% to communes” (OECD/UCLG 2019a:3). Subnational investment expenditure “represented 22.8% of expenditures incurred, with 70% of all investments

Table 8.2 Subnational Administration Expenditures by Type (Average 2014–2016, in percent) (Cambodia)

<i>Expenditure Type</i>	<i>Commune/Sangkats</i>	<i>DMKs</i>	<i>Provinces</i>
<i>Salaries and allowances</i>	42.0	45.3	4.7
<i>Development (capital and maintenance)</i>	50.7	9.6	75.4
<i>Administrative (goods and services, social)</i>	7.3	30.9	7.7
<i>Transfers and subsidies</i>	0	14.2	7.7
<i>Total</i>	100.0	100.0	100.0

Source: ADB (2018:18).

being allocated to the provincial level and 30% being spent at the commune level” (ibid.:3).

The fiscal situation of SNAs in Cambodia is characterized by significant horizontal and vertical imbalances in expenditures. There are large differences in per capita actual expenditures between rural municipalities and (urban) *khans* located in the capital; the median per capita expenditure of a district in 2016 was approximately USD 1.9 while for Phnom Penh it was more than USD 81 (ADB 2018:18f). Similar imbalances can be found for subnational revenues. These are overwhelmingly coming from fiscal transfers. According to a recent Asian Development Bank (ADB) study, there are “effectively no own-source revenues at any level of subnational administration in Cambodia” (ibid.:31). Normally, property taxes are one of the main sources of subnational revenue. In Cambodia, too, revenue from property tax is allocated to subnational administrations for their development. Policy design and administrative issues that hinder higher revenue yields include low statutory tax rates, limitations on properties located in Phnom Penh and in provincial cities, many cases of tax exemption, the way the tax base is calculated for immovable property, and shortcomings of the cadaster system (ADB 2020).

Cambodia has established two funding mechanisms for SNAs: the District Municipality Khan (DMK) Fund and the Communes *Sangkat* Fund (CSF). Both funds use a formula to arrive at the allocation for each SNA. For the CSF, the main elements of the formula are population, poverty, salary and administrative arrangements, equal shares per entity, and development spending share. The main elements of the DMK Fund formula include population, poverty, salary and administrative arrangements, equal share per entity, development share, and area size (i.e., number of communes and *sangkats* in the area). It has been observed that the DMK Fund has a “heavy bias toward administrative structures rather than services, low impact of population and poverty variables, and funding levels mainly targeted to meet salary and administrative costs only” (ADB 2018:37). The CSF is now entirely funded by the government, and the DMK Fund pools resources allocated by the national government and development partners (OECD/UCLG 2019a, Khoun 2018). An improved design of the DMK Fund

will need to factor in the likely costs of the newly transferred functions, and the need to create larger horizontal and vertical fiscal balances. There is also a need for more unconditional transfers to the SNAs to allow them to discharge permissive functions in a more prominent manner.

The significant position of the sector expenditures flowing through the deconcentrated provincial departments is noteworthy. Between 2010 and 2016 their growth rate was nearly double the growth rate of total sector expenditures. In 2010, they had spent 26.9% of total sector funds while in 2016 the proportion has risen to 31.4% (ibid.:20). In other words, despite a strong rhetorical focus on devolution, deconcentration remained the dominating modality of (fiscal) decentralization.

### 8.3 Relevant National Government Institutions and National Policies/Strategies

At the national level, two ministries play a key role in making the SNDD agenda a reality. Unfortunately, the two ministries did not always share the same vision of decentralization reforms. These two ministries are the MOI (especially its General Department of Local Administration which oversees districts, municipalities, and *khans*, and the General Department which supervises provinces and the capital city), and the MEF (especially its Local Finance Department). The two ministries share leadership of the NCDD, which is the intergovernmental body tasked with oversight of the SNDD reforms.

The MOI was the driving force behind designing the SNDD reforms and remains a key institution with around 10,000 employees in subnational administrations countrywide. Under the 2008 Organic Law, the Royal Government appoints governors on advice of the MOI, which directly appoints the administration director. The MOI supervises subnational performance, supports capacity development, chairs the NCDD, and provides the bulk of staff of the NCDD Secretariat (NCDD-S) (ADB 2018:7).

The MEF has taken a cautious and gradual approach to fiscal decentralization reforms and has rarely pursued policies to provide significant additional funding to subnational administrations. The MEF has questioned the large numbers of subnational administrations, adopted a centralized approach to treasury management in subnational administrations, and maintained the dominance of provincial treasury management at the SNA level. So far, it has avoided transferring any direct taxation powers to subnational administrations (instead preferring revenue-sharing arrangements which can more easily be controlled by the national level). As pointed out earlier, a stumbling block regarding permissive functions of local councils has been “that decisions of the councils to fund activities, which are not specifically related to investments, are blocked by the Provincial Department of Economy and Finance (DEF) by deleting the funds for these activities in the approved budgets” (Koeppinger & Tepirum 2018:12).

Observers, however, have commented positively on the recent *Budget System Reform Strategy 2018–2025* of the MEF which aims “at a much more systematic

and integrated budget process at the SNA” and tries “to overcome the separation between the budgets under the line ministries, administered in the provinces and districts ... and those budgets provided to the province-, municipality/district- and commune/*sangkat*-administrations” (ibid.:12).

The line ministries in the sectors have preferred to play rather passive roles, despite the engagement of some in the functional assignment processes. They continue to pass the substantial share of deconcentrated funding for sector functions through their own systems and are not keen to let go of their deconcentrated institutional setup at provincial and district/municipal levels. The new sub-decrees of December 2019 are therefore a significant change for the sectors.

From the beginning, D&D reform policies have been interlinked with reform policies in public administration (such as civil service reform) and public financial management (Hongly & Benicy 2011), even though the conceptual and institutional interfaces between these reform areas were often blurred or ill-defined. Both the D&D reforms and public administration reforms recognize the importance of addressing gender issues (MoWA 2014b, RGC 2019a).

The 2005 *Strategic Framework for Decentralization and De-concentration Reforms* (RGC 2005) was a major step in clarifying conceptually the further development of the D&D policies. The goals of the D&D policies were to strengthen and expand democracy and promote local development to reduce poverty. Basic principles for the reforms included democratic representation at all levels, participation of the population, public sector accountability through citizen oversight of local administrations, effectiveness of public service delivery through greater involvement with users of services, and a focus on poverty reduction. The framework took up the concept of a unified administration, saying that “administrative restructuring will see all subnational administration tiers pursuing effective unified administration under elected councils and governors” and that “subnational administrations will have unified budgets, local staff, and resources” (Niazi 2011:54). While the framework did influence the direction of the 2008 Organic Law, other elements such as elaborating the concepts of unified administration and unified budgets, passing laws on subnational administration finance, revenue assignments, and civil service reforms were delayed considerably.

The envisaged formulation of a national program for the implementation of the strategic framework did not take place before the end of the decade. The program<sup>22</sup> was finally approved by the Royal Government in May 2010 as a comprehensive local governance reform agenda for ten years (2010–2019) (RGC 2010). According to the World Bank, the National Program for Sub-National Democratic Development (NP-SNDD) was organized around three phases: (i) “establish and institutionalize governing systems and structures at the sub-national and national level that ensure implementation of policies and the effective and efficient delivery of public services by sub-national administrations”; (ii) “strengthen and broaden the established system and structures, ensuring that SNAs can adopt and execute local policies that result in improved public services and increased access to public services for women and the disenfranchised”; and (iii) “adjust



programs and deepen impact by replicating lessons learned and ensuring that the programs correspond to and reflect on new policies and strategies of the Cambodian Government” (World Bank 2015:3).

For operational purposes, the program was broken down into three three-year implementation plans (called IP3), which again were divided into annual plans. The IP3 and the annual plans had subprograms and key outcome areas with corresponding budget allocations. The first implementation plan (IP3-I) for the years 2010–2014 was meant to focus on the development of institutions that would create a system of new subnational and national accountabilities, and on the further development of the legal and policy framework for autonomous subnational administrations. The IP3-II (for the years 2015–2017) emphasized support to the districts and municipalities. It was to provide significant additional funding through the DMK Fund, conditional grants, the SNIF, and own-source tax and non-tax revenue; to make progress in funding the general mandate and permissive functions and transfer urban service roles from ministries and provinces to municipalities; and to focus on creating a unified administration by merging deconcentrated units into the district/ municipal administration (ADB 2018:5f).

The final IP3-III (2018–2020)<sup>23</sup> focused on making SNAs more autonomous and more accountable in responding to the needs of citizens in their jurisdiction. Specific objectives included: (i) improved reform management of the ministries and SNAs; (ii) stronger SNA governance; (iii) more effective and efficient SNA human resources management; (iv) transfer of functions to SNAs and innovations in the implementation of the general mandate of SNAs; (v) increased financial resources for SNAs; and (vi) stronger partnerships with CSOs and private sector in service delivery and local development. Funding for the IP3s came from the Royal Government and from development partners. For instance, for the 2017 Annual Work Plan and Budget (AWPB) 90.5% of the total funds came from the government and 9.5% from development partners (RGC 2017:6). There are no cumulative figures available yet covering the whole period of the NP-SNDD.

The next phase of the national program, called “NP-SNDD 2” (NP-2), which will cover the decade from 2021 to 2030, has been approved in December 2021. The NP-2 consists of five components (leadership and reform management, SNA structures and functions, HR management and development, fiscal decentralization and SNA planning system, and service delivery and local development). It has three crosscutting themes: (i) gender, social equity, and inclusiveness mainstreaming, (ii) climate change and disaster, and (iii) e-governance (NCDD 2020). NP-2 will be divided into two phases of five years each; funding will again come from the government budget and external sources.

The concept note for the NP-2 defined the government’s vision for the SNDD reform as follows:

citizens have improved access to public services and benefit from local development provided by the SNAs in a socially equitable and inclusive manner



and eventually contribute to achievement of socio-economic objective in advancing Cambodia to middle high income country in 2030.

(NCDD 2020:4)

The document clearly states that “services should be delivered from the level that maximizes economic efficiency and responsiveness to local needs.” This is the guiding factor in reforming institutional structures, determining the assignment of functions and mandates, and shaping the working relationships between the different level of government. In a nutshell, the focus for service delivery should be on the level of districts and municipalities, with the provinces increasingly focusing on coordination, oversight, and facilitation roles.

In 2019, the NCDD approved a *Policy on Promotion of Gender Equality for Sub-national Democratic Development* (RGC 2019b) with the vision “to ensure management, arrangement and delivery of public services and local development in an effective and socially equitable manner through integrating gender into all aspects and activities of democratic development at the sub-national level” (Sec. 3). The policy is built around 11 strategies including developing the capacity of leaders to promote gender equality, revising systems and procedures at national and subnational level to respond to gender equality, and including the aspect of gender equality in the transfer of functions and resources to the subnational administrations.

Another important government strategy for the subnational level is the Ministry of Interior’s *Strategic Plan on Capacity Development for Civil Servants at Ministry of Interior and Human Resources at Sub-National Administrations (2019–2023)*, which was endorsed in 2018 and outlines training and capacity development interventions for government personnel working in SNAs.

## 8.4 Interdepartmental/Intergovernmental Coordination Mechanisms

Cambodia’s SNDD policy is a significant contribution to the concept of functional assignment as a key element of decentralization reforms. It also has another noteworthy feature from which other countries can learn: its elaborate architecture for intergovernmental coordination on SNDD issues. Both elements, however, also illustrate the complexity, challenges, and risks associated with such multi-sector and multi-stakeholder reform processes.

In the early days of the D&D policy, there had been several arrangements for intergovernmental coordination, such as the National Committee for Support to Communes/*Sangkats* (NCSC) (2001), the Seila Task Force (STF) (2001), or the Inter-Ministerial Commission to Formulate a Draft of Organic Law (IMC) (2005). Articles 192–212 of the 2008 Organic Law included provisions for the establishment of a permanent NCDD<sup>24</sup> as an inter-ministerial body. The NCDD is chaired by the Minister of Interior (who is also one of the Deputy Prime Ministers) and includes the MEF, the Ministry of Civil Service, the Ministry of Planning, and line ministries involved in the process of “functional transfers”

to SNAs. The NCDD can establish sub-committees with working groups on functions and resources, fiscal and financial affairs, and personnel of subnational administrations. The NCDD has its own budget based on medium- and long-term programs and an annual work plan. During the first few years, development partners have funded a significant part of NCDD operations.

The NCDD is supported by an executive secretariat (NCDD-S) which is responsible for executing the IP3 in close coordination with concerned national ministries, subnational administrations, CSOs, and other stakeholders. NCDD-S also prepares the meetings of the NCDD and its annual work plan and budget (AWPB), monitors implementation, and reports back to the NCDD. The NCDD-S consists of four divisions: Policy Analysis and Development, Program Management and Support, Monitoring, Evaluation and Information, and Administration and Finance (NCDD 2012:60).

Important characteristics of the NCDD are its permanent status, its high-level membership and leadership, its wide mandate which combines policy formulation with policy implementation, and its access to financial and staff resources. Observers had feared that the NCDD would become a large project management unit (PMU) instead of a policy formulation and policy coordination entity (Niazi 2011). This has not happened. One innovative feature of NCDD operations is its engagement of line ministries through contractual agreements based on time-bound work plans and dedicated budget allocations from the NCDD budget.

Still, the strong role of the MOI in the NCDD (and its secretariat) at times has raised the suspicion of other ministries. In the context of the functional assignment exercises, line ministries might have felt lack of ownership for their own functional assignment processes because of the strong role of the NCDD-S and its experts (see Koeppinger & Tepirum 2018:26). Finding the right balance between strong policy leadership on the one hand, and the accommodation of sector context and sector expertise on the other, is a difficult task, and the NCDD history has shown that the negotiations with the line ministries are often complicated and time consuming. The NCDD illustrates that having a well-designed body for intergovernmental coordination can facilitate the implementation of reforms, but does not guarantee speedy and comprehensive implementation unless a minimum degree of political consensus is available. At multiple stages and turns of the reform agenda, political economy considerations have shaped the behavior of key actors and have allowed or forestalled further reform initiatives.

## **8.5 Performance of Subnational Administrations**

Clearly, the performance of subnational administrations has been hampered by the incomplete legal and fiscal framework, especially at district and municipal levels prior to the December 2019 decrees. It is mainly the C/S councils which have been fully operational since 2001. A fair amount of research and diagnostic studies have been done on C/S councils and provide information on their performance, functionality, and effectiveness.<sup>25</sup> Overall, observers have concluded that “while expenditure and other basic responsibilities have been narrowly defined, they

are sufficient for this level of government, where limited budget resources will constrain activities” (Niazi 2011:18). A later ADB assessment concluded that, despite resource constraints, “most commune councils have been able to get on with local projects and administration flexibly and effectively” (ADB 2018:23).<sup>26</sup>

In 2010, the European SPACE Programme (EU SPACE) conducted a Multi-Level Citizen and Councilor Survey in Battambang, Kampong Chhnang, and Pursat provinces. The objectives of the survey were to: (i) assess citizens’ perceptions of subnational governance relationships and satisfaction with the responsiveness and performance of elected councilors, and (ii) assess councilors’ and administrators’ perceptions of accountability relationships between citizens, councilors, and boards of governors at subnational levels. Key findings of the survey included the following issues:

- While councilors perceived that it was important to make informed decisions based on consultations with citizens, advice from experts, and facts, findings show that councilors had not actively contacted citizens.
- 99% of citizens said they would prefer to vote for the district council directly.
- Citizens’ awareness of existing grievance mechanisms to hold their elected councilors accountable was low, and few citizens had filed a complaint.
- Commune councils were still perceived by commune councilors, district councilors, and district board members as lower in authority than district councils.
- While the 2008 Organic Law legally gives autonomy to subnational administrations to develop local policies as they see fit to address local needs, subnational administrations did not feel that they had autonomy. Commune councils felt that they needed approval from the district, and the district felt it needed approval from the province.
- While councilors did see that improving public services was a key aspect of their job, there was a mismatch between the service delivery priorities of citizens and those of councilors. Citizens thought that councilors were slow in solving their problems. The general perception was that the quality of public service delivery on several areas was low, especially in solid waste management and irrigation construction (EU SPACE 2010).

These findings confirm the culture of hierarchy mentioned earlier, and the need to establish tangible mechanisms of interaction between elected representatives and their constituencies. Diagnostic work on Cambodia’s political and cultural system, including the emerging SNAs, have pointed to the “pervasive and powerful system of governance known as patron–client relations” where a few powerful patrons control decisions on appointments, discipline, and resources for public offices (Eng & Ear 2016). One very powerful institution in this context is clearly the Cambodia People’s Party (CPP) which has been ruling the country since the early 1980s and is seen as dominating Cambodia’s public institutions.

While political decentralization at the commune level “has facilitated an improved relationship between state authorities and the people through the

direct election and distribution of small-scale infrastructure projects ... it has also strengthened relationships between the party and local villagers,” especially as the CPP is able to channel additional funds to the C/S level (ibid.:214).

Regarding service delivery, the delay in transferring substantial sector functions and their corresponding resources to the district/municipal level has limited the ability of SNAs at this level to perform. It is only with the new legal instruments introduced in December 2019 that functions and institutional setup at the district/municipal level have been more clearly defined (see above). This will allow a better assessment of their performance over time once they are fully operationalized.

The decentralization reform has “opened space for women’s involvement in local politics to a degree that did not exist before,” especially at the C/S level (CDRI 2012:23). While traditional social norms and gender perceptions still limit the political and public space of women, especially at the more senior and more powerful level, the SNDD reforms “and socioeconomic factors have enhanced the political space and improved awareness of gender by providing fora where women are ‘allowed’ to engage politically and access at least a small budget for local development work” (ibid.:25). Observers have pointed to the need for the political parties to take more decisive steps to bring women into the political arena, and to provide opportunities for them to compete for public positions (CDRI 2012, COMFREL 2017).

## 8.6 Political, Institutional, and Operational Framework for the 2030 Agenda and Localizing the Sustainable Development Goals

The *2020 Sustainable Development Report* gives Cambodia a global Sustainable Development Goals (SDG) rank of 106 (out of 166). Out of the 17 SDGs, four are assessed as “on track,” eight as “moderately improving,” two as “stagnating,” and one as “decreasing.” For two SDGs, information is unavailable (Sachs et al. 2020:160).

A Cambodian SDG Framework was approved in November 2018 and was integrated into the National Strategic Development Plan. The *Global Report on Local Democracy and Decentralization (GOLD V)* report notes that local and regional governments were consulted in the preparation of this framework (UCLG 2019:94). A first voluntary national review (VNR) report was prepared in 2019. In Cambodia, the term “localisation of the SDGs” is understood to mean the adaptation of the SDG targets to the national context. This is different from the global understanding, which defines SDG localization “as the process of defining, implementing and monitoring strategies at the local level for achieving global, national, and subnational sustainable development goals” (GTF 2016:6).

The Ministry of Planning is the focal agency for the national SDG strategy and aims to integrate the strategy into national and subnational development plans. According to the proceedings of a regional workshop in April 2019,<sup>27</sup> the current national strategy on localization (identifying targets and planning)

does not yet involve local governments; it is mainly based on a close collaboration between the Ministry of Planning and the various stakeholders and line ministries. The MOI oversees collecting data on the implementation efforts of local governments in all the 25 provinces. The reports are prepared and consolidated by the MOI Department of Local Governments at the provincial level. The Ministry of Planning and the National League of Local Councils still must find a working arrangement that incorporates inputs from the local levels. The National League of Communes (NLC) included the SDGs in its five-year strategic plan (2018–2022) which, as of 2019, had not yet been implemented (UCLG 2019:113). Overall, however, it seems that the understanding of Agenda 2030 and of localizing SDGs at the SNA level is rather limited, and that SNAs are not proactive on these issues.

The 2018 evaluation of the enabling institutional environment for supporting sustainable development in the regions (Cities Enabling Environment/CEE) put Cambodia in the group of countries “where local government reforms are still at an early stage or where local administration is effectively more deconcentrated than decentralized” (UCLG 2019:99). The 2020 GTF report to the High-level Political Forum (HLPF) included Cambodia in the cluster of countries where “difficult circumstances and more limited local capacities are hampering the development of local initiatives ... alignment and implementation are still at only a preliminary stage” (GTF 2020:51).

Using the four elements of an enabling framework for localizing SDGs as discussed in Chapter 6 (legal mandates of local governments, participation in policy arenas, suitable planning and budgeting systems, and effective data and M&E systems), the overall conclusion for Cambodia is that until now, because deconcentration has been the dominant modality of decentralization, the central government (through its national administration and deconcentrated units in the SNA) plays the main role in implementing the 2030 Agenda:

- Until the December 2019 sub-decrees on district/municipal functions are fully implemented and sector service functions devolved or delegated to that level, very few SDG-related service delivery functions come under the jurisdiction and responsibility of SNAs. The C/S level has limited financial and technical resources, and at the provincial level, the deconcentrated departments of the sector ministries play the decisive role.
- Consequently, SNAs and/or their associations have little voice in bodies and policy arenas which discuss and determine SDG strategies. This might change over time, but currently, in view of the dominating role of the CPP as majority party at all levels, it does not seem that SNAs are a main actor in this policy field.
- In line with the constrained functional space of SNAs (at least until the December 2019 decrees are fully implemented) their financial space is limited as well; few resources are provided to SNAs to implement locally designed SDG strategies. While SNAs do play a role in supporting national SDG programs and plans, such support does not represent a genuine SDG

localization approach. Local planning and budgeting systems do not reflect efforts to localize SDGs in spending priorities of the SNA.

- M&E systems continue to be centralized, with few efforts to create disaggregated data systems to monitor and track subnational SDG efforts.

## 8.7 Perception and Involvement of Civil Society Organizations in Subnational Governance

The various D&D and later SNDD reform initiatives of the Royal Government have been closely assessed and supported by CSOs and their national networks from the outset. Unlike other countries such as Pakistan, D&D has always been an issue of public political debate in Cambodia. Civil society in Cambodia, however, has been described as having “shallow grassroots linkages.” This is because most professional NGOs in Cambodia owe their existence more to the influence and financial support of international NGOs and development partners than to the gradual opening of democratic space, the natural scaling up of grassroots organizations, the emergence of a culture of volunteerism and social activism, or the organized charity of an established middle class (ADB 2011). The role of civil society is clearly influenced by the available political space for public discourse, dissent, and political competition. The strong and dominating role of the ruling CPP has been seen as an obstacle. In particular, the dissolution of the main opposition party in 2017<sup>28</sup> clearly marked Cambodia’s increasing slide toward a one-party system, despite the formal insignia of democratic elections and the formal existence of other political parties. The Cambodian Law on Associations and Non-Governmental Organizations (2015) is also regarded by many as an effort by the national government to curtail activities of civil society organizations.<sup>29</sup> The example of Cambodia illustrates that the promise of increased political participation by means of establishing locally elected bodies can only be realized if political awareness, capacity development for civil society, and dedicated mechanisms for interaction between citizens and elected representatives exist and can be used by civil society to exert pressure on the political and administrative decision-making process.

NGO networks like the Cooperation Committee for Cambodia (CCC), and larger CSOs like PACT, WaterAid, and SNV have commented on policies and legal instruments, provided advocacy and capacity development support, and worked with SNAs on service delivery issues in their specific fields of expertise. Research institutes like the Cambodia Development Resource Institute (CDRI) have done extensive field research and have published policy studies and diagnostic work to understand the implications and challenges of the D&D/SNDD reforms. The Committee for Free and Fair Elections in Cambodia (COMFREL) has reported extensively on all the four C/S elections since 2002.

As part of operationalizing the NP-SNDD, the NCDD approved a *Strategic Plan for Social Accountability in Sub-National Democratic Development* (July 2013) and an *Implementation Plan for the Social Accountability Framework* (ISAF) (April 2014) which were developed jointly with CSOs. The social accountability

framework provides a joint platform for action by government and civil society on issues like information sharing, citizen monitoring, and learning. The ISAF integrates social accountability tools across three sets of service providers: health centers, primary schools, and the commune council (World Bank 2020). At the national level, the CCC is a vice-chair for the implementation of the accountability framework.<sup>30</sup>

In 2017, a sub-decree established an ombudsman position at the district/municipal level. This position has been re-confirmed by the December 2019 sub-decrees on functions and structures of districts and municipal administrations.

Both the position of the ombudsman, and the social accountability framework (SAF) are important elements for enforcing accountability and transparency at the subnational level; and both elements feature prominently in the concept note for the NP-2. Component 5 of the NP-2 is likely to feature priorities regarding strengthening and expanding the implementation of the SAF “including e-governance approaches to communication, participation, monitoring, evaluation and feedback of citizens on SNA performance and service delivery”; the same component also refers to enhanced capacity and responsibilities of the ombudsman (NCDD 2020:14).

The December 2019 sub-decrees also include provisions on the relationships between the SNAs, the private sector, and CSOs (Art. 48), and on accountability to citizens (Art. 49).

## **8.8 Engagement of Development Partners and Existing Coordination Mechanisms**

The decentralization and deconcentration reforms have consistently attracted substantial technical and financial support from international development partners. Niazi (2011:30) had identified 15 development partners that were involved in the reform process, clustering them according to their specific thematic focal areas. The volume of support has dropped considerably, partly because of the political events in 2017, and partly because of the general withdrawal of bilateral development partners from Cambodia. The long delay in effecting a meaningful transfer of sector functions to the district/municipal level has also contributed to a certain “SNDD fatigue” in the donor community. At the beginning of 2021, development partners remaining in the field of SNDD include ADB, the European Union, Germany (GIZ), Japan (JICA), SDC, Sweden (SIDA), UNICEF, UNDP, the United States (USAID), and the World Bank.

ADB has supported Cambodia’s D&D policy from the beginning. Previous engagements include the Commune Council Development Project (2002–2007); the Public Financial Management for Rural Development Program (2005–2017), which engaged line ministries to strengthen resource prioritization for improved service delivery to the rural population; and the Decentralized Public Service and Financial Management Sector Development Program I (2012–2017). The latter included two subprograms for improved access to and coverage of basic services, including reforms in: (i) improving the regulatory framework for decentralization;



(ii) strengthening institutions for decentralization policies; (iii) defining service delivery responsibilities of SNAs; and (vi) strengthening SNA accountability. The program underlined not only the importance of the fiscal and financial aspects of decentralization reform, but also the relevance of social and political accountability measures that allow constituents to influence local service delivery. Currently, ADB is supporting the Second Decentralized Public Service and Financial Management Sector Development Program which includes, among others, financial and technical support for the establishment of a National School of Local Administration.<sup>31</sup>

The Council for Development of Cambodia (CDC) coordinates overall international support to Cambodia, while the NCDD-S is the main government body coordinating development partner support to the SNDD policy. The IP3s and their annual work plans and budgets (AWPB) are the main tools to align development partner support with government priorities. In the earlier years of the D&D reforms (especially after the 2005 *Paris Declaration on Aid Effectiveness*) there was considerable tension among development partners about support modalities.<sup>32</sup> This tension has largely evaporated as the establishment of the NCDD and the NP-SNDD has provided the required institutional and conceptual platforms to harmonize and align all kinds of support initiatives. The increasing cooperation of development partners can be seen in the technical support provided to the functional assignment process, where different development partners provided support according to their comparative advantages.<sup>33</sup> The transfer mechanisms established by the Royal Government, i.e., the CSF and the DMK Fund, have been used by development partners to provide additional financial resources to SNAs.

## 8.9 Current Challenges for Subnational Administrations

Challenges for the SNAs vary according to their position in the multi-level governance system and their level of institutional maturity after nearly two decades of reforms.

At the *C/S level*, the existing institutional setup is fairly settled. The CSF has been operating for a considerable period. The overall assessment seems to be that this level of SNA performs in a satisfactory manner, considering its limited scope of functions. In view of the political climate in Cambodia, maintaining the space for political competition and genuine interaction between citizens, councilors, and officials will remain a challenge. The latest C/S election in June 2017<sup>34</sup> gave the CPP a reduced majority and the opposition, the Cambodian National Rescue Party (CNRP), a considerable gain. However, all CNRP positions were lost (and redistributed to other parties) when the Supreme Court dissolved the CNRP in November 2017. Since the representatives elected at the CS level will also elect the councilors of the other SNAs, the CPP will also hold most seats in the provincial and district/municipal councils.

For the *district/municipal level*, the main challenge is to operationalize the new sub-decrees of December 2019. They need to integrate the deconcentrated offices into the district/municipal administration and start implementing the



assigned and delegated functions. The relationship and interaction between the councils and the board of governors (and especially the governor in his/her dual role) will be critical to determine the degree of local autonomy and decision-making. The transfer of sector functions as outlined in these decrees will require the transfer of sufficient financial resources, and thus a shift from deconcentrated funds to conditional and unconditional grants to the SNAs. Effective accountability mechanisms will be essential, especially since the indirect election of councils at this level limits the direct accountability relationship between local communities, the council, and the administrative setup. More initiatives for engaging in permissive functions would strengthen the district/municipal councils' ability to take care of local issues.

The *provincial level* needs to operationalize the assignment of health sector functions, with a view to delegating more such functions to the district/municipal level at a later stage. It will also have a wider range of supervisory and monitoring responsibilities in view of the new functions assigned or delegated to the district/municipal level.

Cambodia was fortunate to see initially very few cases of COVID-19; as of late 2020, less than 300 cases had been reported, with not a single fatality.<sup>35</sup> It was only during the first months of 2021 that infection rates started to increase. As of February 2022, Cambodia reported approximately 124,000 cases of COVID-19 with more than 3,000 COVID-19-related deaths.<sup>36</sup>

By March 2020, closures of educational institutions, and a nation-wide suspension of cinemas, art theaters, and museums was decided. This was followed by lockdowns, curfews, and partial restrictions of interprovincial travel starting in early April 2021. A national COVID-19 masterplan had been prepared, and cross-sector coordinating committees at national, provincial, and district/municipal levels were setup to coordinate the required response measures. State of Emergency legislation was passed into law in April 2020 but has not been enacted (WHO 2020). The closure of schools, restrictions for nightclubs and karaoke bars, and travel restrictions were all executed under national leadership with the governors at provincial and district/municipal level playing a decisive role. The deconcentrated structure of the health system probably helped to ensure full compliance with nationally determined measures by all levels of the administrative and political system.

Combating the pandemic provided important lessons and conclusions for the devolved setup of the SNAs as well. For example, in Battambang province, district and municipal administrations were capable of conducting the required activities (such as setting up testing and quarantine facilities, dealing with cases of confirmed infections, dissemination of information, awareness raising, reporting to higher levels, etc.) “in a committed, responsible and effective way” (Koeppinger 2020:17). The main obstacles were a lack of budget resources and a lack of protective equipment for health care workers and other local staff. Recommendations for the future include (i) the authorization of district and municipal administrations to deal “regularly with the prevention and mitigation of dissemination of infectious diseases”; (ii) the establishment, in such cases, of

a local task force including “a limited number of representatives from relevant administration offices, local health care structures, commune/*Sangkat* leaders, police and CSOs working on health issues on village and commune/*Sangkat* level”; (iii) ensuring that SNAs have direct access “to a minimum number of high standard protective cloth, equipment and materials”; (iv) training of staff on prevention and mitigation in situations of infectious diseases; and (v) the inclusion of a specific budget line on “prevention and mitigation of infectious disease dissemination as an obligatory function for all municipality/district administrations” (ibid.:17f).

## Notes

- 1 Communes (in the rural areas) and *sangkats* (in the urban areas) are the lowest level of Cambodia’s administrative and political structure.
- 2 See the introduction for a detailed discussion of these modalities.
- 3 As will be shown later, the modality of delegation is also a concept strongly employed in the Cambodian decentralization policies.
- 4 The 2008 Organic Law clarifies that “democratic development” includes “public representation, local autonomy, consultation and participation, responsiveness and accountability, promotion of quality of life of the local residents, promotion of equity, transparency and integrity, [and] measures to fight corruption and abuse of power” (Art. 12).
- 5 *Khans* are municipal districts in the capital Phnom Penh.
- 6 See ADB (2018:9) for a listing of important sub-decrees.
- 7 In common parlance, the 2001 law is often called the Commune/*Sangkat* Law while the term “organic law” is much more associated with the 2008 law on provinces, districts, and municipalities.
- 8 The Law on the Election of the Commune/*Sangkat* Council (March 2001) and the Law on the Election of the Capital, Provinces, Municipalities, Districts and Khans (May 2008).
- 9 The C/S Fund was established in February 2002, while the District/Municipality Fund (DM Fund) was established in 2012. In 2019, a new sub-decree (No. 121/2019) increased the development component of the C/S Fund.
- 10 See ADB (2018:36) for details on the SNIF. ADB is contributing financial resources to the SNIF under the Decentralized Public Service and Financial Management Sector Development Program.
- 11 The Cambodian process architecture for the functional assignment process has found its way in the international literature (Ferrazzi & Rohdewohld 2017) and has influenced similar processes elsewhere (such as in Nepal and Mongolia).
- 12 Sub-Decree No. 193 ANK.BK on the Assignment of Health Management Function and Health Service Delivery to the Capital and Provincial Administration, (ii) Sub-Decree No. 184 ANK.BK on Functions and Structures of District Administration, (iii) Sub-Decree No. 182 ANK.BK on Functions and Structure of Municipal Administration, and (iv) Sub-Decree No. 183 ANK.BK on the Functions and Structure of Khan Administration of Phnom Penh Capital.
- 13 This includes forestry, postal and telecommunication services, national defense and national security, monetary affairs, foreign policy, fiscal tax policy, and “other areas as provided in laws or legal instruments concerned.”
- 14 See, e.g., the *Guidelines on Functional Review for Sector Ministries, Institutions, Departments, Units and Authorities at all Levels* (NCDD 2013) and the *Guideline*

*on Preparation of Transfer, Receipt and Performance of Functions and Resources transferred to SNAs* (NCDD 2014).

- 15 The only difference between districts and municipalities is that while the municipal administration includes an office for Public Works, Transportation, Hygiene and Sanitation, the district administration has an office for Agriculture, Natural Resources, and Environment. See also Figure 8.1.
- 16 Called Complimentary Package Activity (of referral hospitals), Minimum Package Activity (of health centers) and Health Service Package (of health posts) (Art. 4).
- 17 Art. 25 mentions the need for a study in order to delegate functions to lower-level SNAs.
- 18 The Technical Facilitation Committee has an important role in harmonizing development plans and budgets of national ministries and institutions with the local-level planning, i.e., a five-year development plan and a three-year investment plan.
- 19 In April 2016, a Royal Decree “On Particular Statute on SNA Personnel Management” was issued, followed by a sub-decree on the delegation of power to the board of governors for the management of staff at subnational level which came out in December 2017. Two guidelines operationalizing these two decrees were issued by the MCS in February 2018.
- 20 Sub-Decree No. 184 ANK.BK on Functions and Structures of District Administration; Sub-Decree No. 182 ANK.BK on Functions and Structure of Municipal Administration.
- 21 Corresponding figures from the region are as follows: Thailand: 18.1%, Philippines: 18.5%, and Indonesia 38.4% (ADB 2018:16).
- 22 National Programme for Sub-National Democratic Development (NP-SNDD) 2010–2019. Besides annual progress reports, there have been a midterm review of IP3-I in June 2012, and a midterm review of IP3-II in September 2016. In 2019, the program was formally extended until 2020.
- 23 As the NP-SNDD was extended for another year, therefore IP3 includes 2020.
- 24 The NCDD and its secretariat was formally established by a Royal Decree in 2008.
- 25 For the early years of the D&D reforms, see, for instance, Turner (2002); Blunt and Turner (2005), and Smoke (2006); for the later periods Smoke and Morrison (2011), CDRI (2012), Öjendal and Sedara (2013), and Eng and Ear (2016).
- 26 See also Eng and Ear (2016:2–18f).
- 27 Joint Workshop on ‘Enhancing the Capacity of Local Governments in Localising the Sustainable Development Goals’, 8–9 April 2019, Siem Reap, Cambodia. The workshop was organized by the Asian Development Bank (ADB); the Asian chapter of United Cities and Local Governments (UCLG-ASPAC); the Development Partners Network on Decentralisation and Local Governance (DeLoG), the Local Governance Network and Initiatives (LOGIN), and the Federation of Canadian Municipalities (FCM).
- 28 While the formal decision to dissolve the CNRP was taken by the Supreme Court of Cambodia, it is widely seen as a political move by the CPP to remove a political competitor, which in the 2013 national elections had nearly managed to edge the CPP out of its ruling position. As a result of the Supreme Court’s ruling, all CNRP office-holders, including 489 commune chiefs and 55 MPs, lost their positions and had their seats allocated to other parties.
- 29 See the Joint Statement issued by 28 organizations on 6 February 2020 (<https://comfrel.org/english/joint-statement-the-effects-of-the-law-on-associations-and-non-governmental-organizations-and-the-process-of-its-amendment/>) (accessed 01-09-2020).

- 30 The recent impact evaluation of ISAF has shown mixed results related to the expected outcome areas of ISAF, i.e., (i) citizen awareness of rights to services, service standards, and budgets, (ii) levels of citizen engagement, and (iii) service delivery quality and outcomes (World Bank 2020).
- 31 See ADB 2021:36 with details on ADB's support to Cambodia's SDG strategies and efforts to localize SDGs.
- 32 Controversial issues included project support versus budget support and basket funding, and off-budget versus on-budget support. Rusten et al. (2004: 24ff) gives an overview over the very early development of partner cooperation under the *Seila* Program and its predecessor.
- 33 For instance, ADB provided support to the Ministry of Rural Development on rural water issues, while the World Bank worked with the same ministry on rural sanitation. ADB also supported functional assignment exercises in the Ministry of Agriculture, Fisheries and Forestry, while UNICEF supported the functional assignment process in the Ministry of Education, Youth, and Sport. Germany (GIZ) supported the NCDD-S with conceptual inputs to the FA process, and later also engaged with the health and education sectors.
- 34 The CPP had won 1,156 Commune Chief positions (436 less than in the 2012 election) and a total of 6,503 councilor seats. The CNRP had won 489 Commune Chief positions (a plus of 449), and 5,007 councilor seats.
- 35 See data from the John Hopkins University (<https://coronavirus.jhu.edu/region/cambodia>) (accessed 30-10-2020).
- 36 <https://coronavirus.jhu.edu/region/cambodia> (accessed 15-02-2022).

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# 9 Decentralization, Local Governance, and Localizing the Sustainable Development Goals in Indonesia

*Gabriele (Gabe) Ferrazzi*

## 9.1 Constitutional and Legal Frameworks and Core Functions

Indonesia's demography and geography favor building an extensive system of subnational governments (SNGs). The Republic of Indonesia is a sprawling and densely populated archipelagic state in Southeast Asia, ranking fourth in population with an estimated 270 million people (BPS n.d.). The 1945 Constitution of the Republic of Indonesia structures the country as a unitary state, emphasizing the power of the executive branch. This centralization is balanced with a commitment toward decentralization through two levels of regions (*daerah*): provincial governments, and below them district and city governments. Village governments have also developed over time, attaining greater formality and resources through their own legislation in 2014.

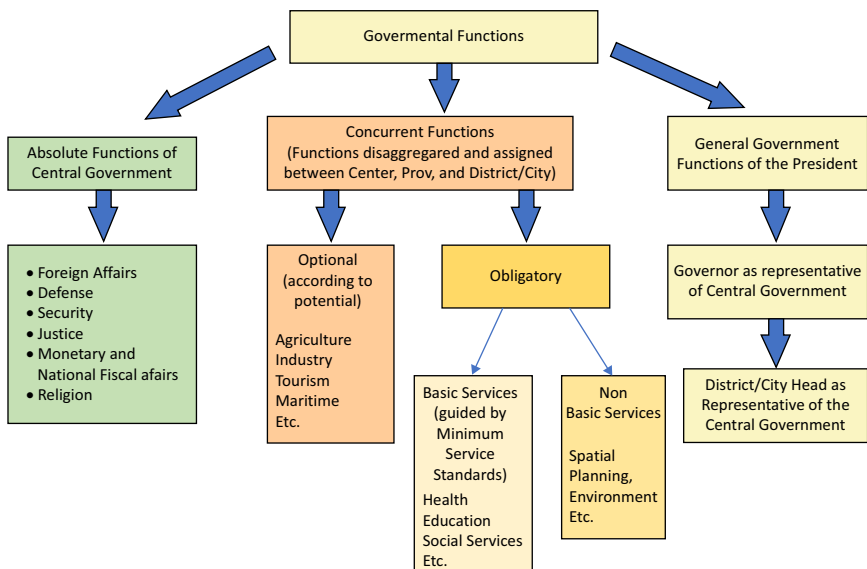
The two regional government levels are not formally placed in a hierarchical relationship. However, in practice, the national government uses the dual function of the provincial governor (as regional head and as the representative of central government)<sup>1</sup> to enlist the resources of the province in supervising and supporting the district/city governments. The district government on the other hand plays a more explicit and direct guiding role toward the village governments. Adding complexity, the province also has some influence over village governments.

Regional and village governments have democratic political structures and substantial resources. Regions consist of elected parliaments and a directly elected regional head, provincial governors, district regents, and city mayors. Like the presidential system at national level, the regional heads are dominant in relation to the regional parliaments. Through roles established by national legislation, district governments have provided guidance to village governments; in some parts of the country, this practice melds with traditional forms of governance. Village governments are also elected; after decades of relative neglect, their functions and resources have been boosted in recent years—so much so that they are now seen as potential contributors to most of the Sustainable Development Goals (SDGs) (Kemendesa 2020).

Regional autonomy in the Indonesian Constitution is potentially quite comprehensive. It stipulates regional autonomy as “[a] right, authority and

obligation of autonomous regions to organize and pursue government affairs and community interests within the unitary state system of the Republic of Indonesia.” Regional governments are to be given the widest possible discretion in undertaking both autonomous and delegated functions. The national government, moreover, can opt to use the deconcentration modality to carry out activities in the regions.<sup>2</sup> A handful of provincial regions (especially Aceh & Papua) have been given special forms of autonomy resulting in asymmetric decentralization arrangements, but it has been the district/city level that has been emphasized in national decentralization efforts. The reforms have been applied uniformly across districts and cities, raising challenges related to the capacity of smaller and newly created regions.

Since independence, Indonesia has seen many changes in its territorial structures and in the degree of decentralization. The most radical change came from the turbulent political upheaval following the fall of Suharto’s New Order regime at the time of the Asian financial crisis, resulting in the 1999 “Big Bang” decentralization (Hofmann & Kaiser 2004). Over the next decade, the previously heavily centralized country became one of the world’s most decentralized countries, with regional governments (particularly districts/cities) becoming responsible for about half of total public expenditure. Decentralization proceeded with a “Made in Indonesia” architecture (Figure 9.1) that adopted and adapted international typologies. Some functions were retained in their entirety at the central level (absolute functions of the central government), and others were made



*Figure 9.1* Overall Architecture of Governmental Functions in Indonesia.

Source: Author, derived from Law 23/2014 on Regional Government.

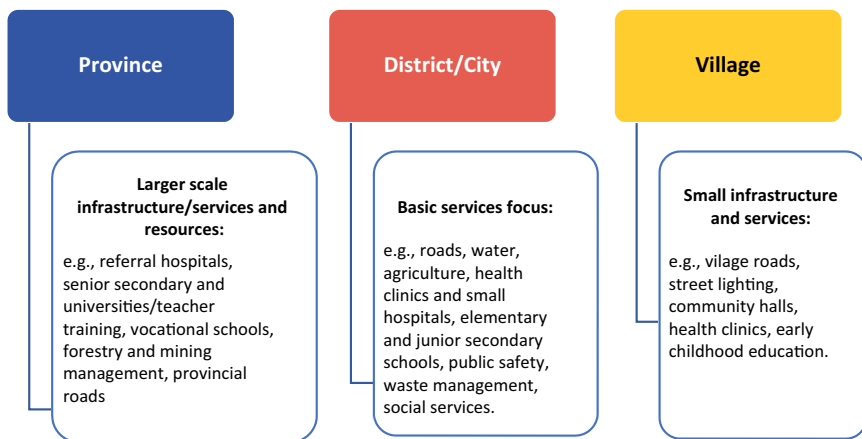


“concurrent” between the three levels of government in the sense that they are further subdivided and assigned in part to regional governments. For those components of the functions (sub-functions) assigned to the regional governments, some were deemed obligatory and others optional.

Functions transferred in the 1999 reforms were detailed and covered most government sectors. These functions were much later placed in the appendix of Law 23/2014 on Regional Government. Figure 9.2 shows a briefly summarized list of functions of all subnational levels of government. This division of functions generally saw district/city governments take up most public services, while the provincial government assumed infrastructure and services that cut across boundaries to avoid spillovers that would lead to inefficiencies at lower levels.

Village level functions have yet to be clearly demarcated from those of the district government in the regulations. As more funds have been transferred to village governments,<sup>3</sup> several national government agencies and regional governments have sought to shape what villages do with their growing financial resources. Additionally, the national ministry with the most direct responsibility for guiding villages has taken to issuing a long list of annual priorities for villages that vary little from the list of district functions. For instance, villages are encouraged to reduce mother and child mortality rates, address stunting, and operate early childhood education centers.<sup>4</sup> It is not clear how the resulting concurrency between district and villages can be made to work well, but one limiting factor for villages is their relatively small budgets in comparison with district budgets—even if these have been boosted in recent reforms.

Concurrent functions are broadly defined and are further assigned in their constituent parts (sub-functions) to the central government and to either of the regional government levels. In practice, concurrence (as understood in the



*Figure 9.2* Summarized Functions of Subnational Governments in Indonesia.

Source: Author, drawing from Law 23/2014 on Regional Government and Law 6/2014 on Villages.

international discourse) only results when this final specific assignment is not properly made. Generally, there is an attempt within each function to allow a role for regional government in accordance with its scale. Even in these cases, however, the central government retains a policymaking/standard setting role.

The dual role of the governor enables the central government to enlist the provincial governments in supervising the district/city governments. As mentioned above, in practice the provincial governments also coordinate, guide, and supervise the district/city governments; functions that formally rest with the central government. In principle, these functions are exercised by the provincial governor, acting as representative of the central government. Hence, the governor plays a deconcentration role; accordingly, these tasks are to be financed by the central government.

The obligatory nature of basic service delivery is underpinned by centrally established minimum service standards (MSS). This safeguard was developed in the decentralization reform design to give district/city governments some parameters in the initial general competence architecture of functions (Ferrazzi 2005) and to ensure that basic services would not be neglected by regional governments. The standards are equally applicable to all regional governments and are to be given priority in regional government expenditures from any source. The central government supports MSS implementation through the Special Allocation Grant (DAK) and can track the achievement of MSS through regional government reporting.

The standards soon proliferated and became financially not feasible, undermining their credibility and enforcement. They have, however, influenced some regional governments (those nearly about to reach national targets) to improve their performance, and they have served as a framework for central–local dialogue about public services (Roudo 2018). Since 2014, an effort has been made to refocus MSS on basic services. The standards are increasingly streamlined in regional government plans and budgets and have become part of the public discourse. Some regional governments have essentially met all MSS, but data on MSS achievement across all regions is spotty. While their formulation and operational level differ somewhat from the SDGs, the achievement of the MSS naturally impinges on the achievement of the SDGs. The linkage has not been well made, however, and regional governments are often pressured to achieve both with little guidance on how they relate to each other.

## 9.2 Basic Data on Subnational Governments

Regions and villages are numerous and vary widely in their size and capacity. In the wake of the decentralization reforms, the number of regions grew sharply as local elites sought to gain more control, manage local resources, and attract more funds. Regions have doubled in number (Table 9.1), consisting now of 34 provincial governments, 416 district governments, and 98 city governments.<sup>5</sup> Village governments number over 75,000, and urban wards (in cities) number

*Table 9.1* Growth in Number of Regional Governments, 1980–2019

<i>Regional government</i>	<i>1980</i>	<i>1990</i>	<i>2000</i>	<i>2010</i>	<i>2019</i>
Province	27	27	26	33	34
District	246	241	268	399	416
City	54	55	73	98	98

Sources: Adapted from Nasution (2016), and Wikipedia (2019).

Note: Decentralization took full effect by 2001, making 2000 the baseline for regional units.

*Table 9.2* Average Population and Spatial Scale of Subnational Government Jurisdictions

<i>SNG unit</i>	<i>Number of units</i>	<i>Average size (approximate, sq. km)</i>	<i>Average population</i>	<i>Range of population</i>
<i>Province</i>	34	53,000	7,940,000	691,000–48,000,000
<i>District/city</i>	514	3,500	500,000	6,400–5,700,000
<i>Village</i>	75,436	22	3,000	100–40,000

Source: Author's calculation from data of Badan Pusat Statistik (e.g., 2010 census).

over 8,000; the latter lack the political autonomy of villages. The average size of government units is indicated in Table 9.2. The wide variation in population and endowments leads to vast differences in institutional capacity and regional incomes—the latter up to a factor of 30 across districts/cities.

The resources made available to regional governments in Indonesia are considerable. The typical political and administrative structures and resources of provincial and city/district governments are described in Table 9.3. In establishing these structures, the regions are bound by parameters embedded in subsidiary regulations to the Organic Law 23/2014 that often undermine the wide discretion promised in the Constitution and legislation.

Decentralization in Indonesia was largely on the expenditure side, leading to a large vertical fiscal imbalance. Intergovernmental transfers have therefore continued to be necessary to close the fiscal gap, with districts/cities raising only 15.4% of their revenues, and villages much less than that (Table 9.4).

In the reforms initiated in 1999, revenue sources favored the provinces, with subsequent property tax and land transfer tax decentralization to the districts/cities working to add balance. The reform era revenue assignment largely excluded sources that are large or very buoyant, such as income tax and value added tax, which were retained by the central government. However, a small portion of the personal income tax was shared with the regions (8% for provinces and 12% for district/cities). Natural resource revenue sharing also became a substantial source

*Table 9.3 Structures and Resources of Regional Governments*

	<i>Province</i>	<i>District/city</i>
<i>Elected political body</i>	Council of 35–100 members (directly elected). Regional head (Governor) is directly elected (since 2005); does not sit on the Council.	Council of 20–50 members (directly elected). Regional head (Regent/Mayor) is directly elected (since 2005); does not sit on the Council.
<i>Bureaucracy</i>	27–39 organizations of the provincial government. Ave. 16,700 employees (full civil servants and contract workers).	27–49 organizations of the district/city government. 2,000–10,000 employees (full civil servants and contract workers).
<i>Budget</i>	Annual budgets in USD 1–5 billion range.	Annual budgets in USD 50–500 million range.
<i>Own-source revenues</i>	Own-source revenue: Ave. 54.4% (2017).	Own-source revenue: 2%–78% (average 13%).
<i>Lower-level governments</i>	About 15 districts/cities within province boundaries.	50–300 villages/wards within the district/city boundaries.

Source: Ministry of Finance and Ministry of Home Affairs online data bases; Law 23/2014 on Regional Government.

*Table 9.4 Revenue Sources of Regional Governments (2015)*

<i>Regional level</i>	<i>Own revenues</i>	<i>Revenue sharing</i>	<i>Central Govt. transfers</i>	<i>Others</i>
<i>Province</i>	54.7%	NA	24.8%	20.4%
<i>District/city*</i>	15.4%	0.08%	67.2%	17.32%
<i>Village</i>	2.5%	NA	97.5%	0.01%

Source: Ministry of Home Affairs, 2015, and BPS Financial Statistics of Regency/Municipality Government 2017/2018 and Financial Statistics of Villages 2019.

\* Data is for 2015 for province, 2018 for district/city, and 2019 for villages.

for some districts. A very modest effort was made to share the wealth of well-endowed districts with neighboring districts. While the size of natural resource revenue sharing is relatively small overall (5.6% of all transfers), the concentration of these revenues in the few districts from which they are derived, and their neighbors in the same province, adds significantly to horizontal inequality.

The vertical fiscal imbalance in Indonesia's intergovernmental relations has some negative consequences. There is a heavy reliance on transfers, with rules that restrict regional autonomy and create procedural inefficiencies. The high proportion of transfers also dampens local accountability, as evidenced by findings that

regional government corruption is higher where transfers are higher (Suprayitno 2011).

### **9.3 Central Government Institutions and National Policies/Strategies for Subnational Governments**

In Indonesia, decentralization (and recentralization) reforms, along with efforts to strengthen local governance in general, create a complex arena, populated by collaborating and competing institutions. At the national level, responsibility for coordinating key aspects of SNG governance is shared by three principal government agencies: the Ministry of Finance in the case of finances, particularly transfers; the National Development Planning Agency (Badan Perencanaan dan Pembangunan Nasional [BAPPENAS]) on regional development planning, particularly its integration in national planning; and the Ministry of Home Affairs for general guidance of regional governments. Additionally, sector ministries play a large role in providing technical support and standards, and in influencing decentralization policy more broadly. Other important players are the institutions concerned with civil service regulations, namely the National Civil Service Agency (BKN), responsible for civil service formation, and the Ministry for Administrative Reform (MenPANRB), which governs public services practices to improve quality and accountability. These institutions often vie to play leading roles or to influence policies toward SNGs but are less keen to reflect on their organizations and practices and how these might inhibit SNG performance. They are also prone to acting in silos and have institutional/incentives barriers hampering coordination of policies and programs.

There was little institutional coordination in the “Big Bang” decentralization reforms initiated in 1999. The economic upheaval of the Asian financial crisis released long pent-up regional claims for autonomy, and these were given an ad hoc but favorable response by President Habibie and his successors. In the years that followed, implementation challenges highlighted those regulatory issues that needed clarification. The ensuing revision effort was described as a consolidation of decentralization policy, culminating in a revamped framework in 2004. As these changes did not yield sufficient service improvements on the ground, the government launched additional and larger reviews and policy development efforts. These included a strategy to revise the territorial structure to put brakes or bounds on regional splitting, i.e., the division of regions in two or more separate regions, and a Grand Design for Fiscal Decentralization (USAID 2009). Territorial splitting was blunted but fiscal decentralization proceeded slowly. What emerged in 2014 was a rather unexpected recentralization of natural resource and education functions, rather than any substantial adjustment in the perennial fiscal imbalance. This represented a considerable retreat from the original emphasis of decentralization to the district/city level. Provinces (and the central government) were emphasized in the revised framework, with the provincial governor playing a key role in binding the local governments to the

national government. Reflecting the larger concern with economic innovation and growth, the regional government/decentralization policy in the new national development plan (2020–2024) has lost some visibility in comparison to earlier plans. The new plan stresses innovation in regional government, particularly in facilitating business development. In both the economic and social spheres (e.g., the achievement of SDGs), SNGs are seen as instruments for achieving national priorities. This creates some tension with the constitutional commitment to wide regional government autonomy and the original impulse of the reforms launched two decades before.

#### **9.4 Interdepartmental/Intergovernmental Coordination Mechanisms for SNGs**

The experience of countries undertaking decentralization reforms shows that substantial horizontal and vertical coordination is necessary. Moreover, coordination is needed between the public sector and the nongovernmental domain (Rohdewohld 2006). Several approaches have been adopted to improve horizontal and vertical coordination in Indonesia. At the national level, the Regional Autonomy Advisory Council (DPOD) has sought to bring the key actors together—particularly the Ministry of Finance and Ministry of Home Affairs, bound together through their shared leadership and joint secretariat of the DPOD.<sup>6</sup> The performance of the DPOD has been disappointing as it has not been able to improve the weak coordination and curb inter-ministerial competition, resulting in inconsistent policies and legal products (Smoke 2005). The inability of the DPOD to effectively encompass sector ministries has allowed conflicting provisions between the Organic Law and its regulations and those championed by sector ministries that have caused confusion and tension at the field level.

Another structural approach to solving the coordination problem has been through the “dual function” design of the provincial governor position. Acting as a representative of the central government in general and of specific national institutions, the governor can in principle be the focal point for harmonizing policies and adapting national programs to the needs of the regions. To date, this role has not been well developed organizationally, although in terms of regulations the governors have been strengthened in their supervisory and support roles. For instance, the governor is to lead the province and district/cities in preparing an action plan on the SDGs.

Central and regional government planning is synchronized and harmonized horizontally and vertically through annual planning/budgeting directives; coordination meetings, particularly on special fund (DAK) allocations; and review of draft regional budgets. This idealistic framework is difficult to operationalize in practice. It absorbs a great deal of energy without resulting in well-integrated plans in many cases. The central government also reviews the annual budget of the regional governments (reviews of district/city budgets are done by the provincial governor on behalf of the central government),

but these reviews tend to be limited to procedural norms rather than whether the expenditures conform with national priorities (e.g., on SDGs or minimum service standards). Regional budgets are often amended as a result of these reviews, but not substantially.

The DAK provides funding to regional governments to help achieve national imperatives such the SDGs, but the proposal approach is onerous. For example, four different actors are involved in reviewing district/city government proposals: sector ministries, BAPPENAS, the Ministry of Finance, and the provincial governor/provincial government. These agencies find it hard to act together to provide timely information to regional governments on DAK allocations, making it difficult for regional governments to budget with confidence. The impracticality of this process is further compounded by the lack of suitable assessment tools for reviewing plans and budgets. In the short time available, only the most glaring deviations from the rules can be caught. There is little guidance on how the district/city governments can reflect national imperatives while also exercising their autonomy in the effort to close gaps in achieving the SDGs.

## **9.5 Performance of Subnational Governments<sup>7</sup>**

Access to basic services has seen some improvement since decentralization but has lagged the pace of growth in regional government spending. The World Bank estimates that real per capita spending increases of 258% between 1994 and 2017 have only led to a 33% improvement in “access to basic services” on average, with only a weak correlation between spending and access improvement (World Bank 2019).

Decentralization has led to some convergence in spending across regions. Where regions faced large gaps in public investments, some change in the composition of spending can be noted, contributing to a slight convergence in public service delivery across districts. A study found that regions with substantially lower investment in health prior to decentralization increased their investment in health by about 14% after decentralization. Spending also increased by about 7% for schooling and 6% for physical infrastructure (Kis-Katosab/Sjahrir 2017). Drawing detailed conclusions about the links between spending and outcomes is hampered by the lack of reliable and timely data at district level.

Services that most touch people’s daily lives are seen by the public to be SNG responsibilities, in particular health, education, water, and sanitation. In providing these services, SNGs have shown variable success. In health, maternal mortality and child mortality under five have been halved since the start of decentralization reforms (WHO 2018).<sup>8</sup> The prevalence of children under five years of age who are stunted remains stubbornly high, at 27.7% (pre-COVID-19), higher than most regional and income-level peers (World Bank 2020a). In education, gross enrollment rates have held steady at over 100% for primary schools and have increased from 55% to 85% for secondary schools since 2000. Gender equality in primary and secondary school enrollment has largely been achieved. However,

this significant improvement in access to education has not been matched by improvements in educational quality and learning outcomes (Rosser 2018). In water and sanitation, the achievements are modest, with “viable” drinking water reaching 93% of the population and access to viable and safe sanitation reaching 7.6%; these fall short of the “100-0-100” targets that were to be achieved by 2019 (NAWASIS 2021).<sup>9</sup>

Decentralization, or regional autonomy (*otonomi daerah*), did increase the space for SNGs to experiment with novel approaches, often supported and facilitated by the provincial governments as autonomous regions with substantial resources and a good vantage point in supporting district/city governments. A good example of this approach is the multi-stakeholder forum created in some provinces to promote collaboration to share knowledge on innovations. These provincial hubs bring together district/cities and prepare and incentivize them to generate and spread public service innovations (Setiadi et al. 2019).

Decentralization has also given women opportunities to take part in the sub-national political process and, more broadly, in subnational governance. Women candidates for regional head and deputy regional head positions won 9.8% of their races in 2018 (The Conversation 2018). In regional parliaments, women’s representation rose from 16% in 2014 to 18% at the provincial level, and from below 14% to just over 15% at the district/city level. The increase resulted from women candidates tapping into women’s networks as well as dynastic linkages (Aspinall et al. 2021). Their campaigns focused on traditional women’s issues such as maternal and infant health and women’s economic empowerment, concerns which are well aligned with the pursuit of SDGs.

## **9.6 Political, Institutional, and Operational Framework for the 2030 Agenda and Localizing the Sustainable Development Goals**

Indonesia ranks slightly below regional comparators. In the *Sustainable Development Report 2020*, Indonesia ranked 101 of 166 countries, with a country score of 65. This falls slightly below the regional average score of 67.2, below countries like Viet Nam, Malaysia, and the Philippines (Sachs et al. 2020). Unfortunately, in view of the limitations in reporting and monitoring systems, it is not possible to systematically determine performance at a regional government level. It is clear from the partial data available that there is a great disparity in achievement across regions within the country, with Java/Sumatra performing better than the outer islands. Disparity in achievement within regions is also evident, in part a reflection of the urban-rural divide. The SDG achievements are now imperiled by the impact of the COVID-19 pandemic.

While the political commitment to strong SNGs seems less certain than in the earlier stage of decentralization reforms, commitment to achieving the SDGs is increasing. Presidential Decree No. 59/2015 called for national and regional SDG action plans, and for the SDGs to be mainstreamed into the national and regional medium-term development plans with the intent to



prioritize SDG related expenditures. The implementation of the SDGs was to be led by governors as representatives of the central government, with the involvement of the regents and mayors. The preparation of SDG action plans at national and subnational levels involved numerous stakeholders, including the private sector and civil society/philanthropic bodies. To ensure coherence, the government standardized the definition, computation method, frequency of data collection, and disaggregation of SDGs. This standardization aimed to facilitate comparability among regions. A communication strategy was prepared to develop awareness and commitment to promote wide participation and public engagement to implement the SDGs.

National policies on localizing the SDGs emphasize the goals' congruence with national development indicators as the framework that guides SNG roles and programs. The United Nations (UN) approach to localizing the SDGs calls for a national SDG framework but also action from the bottom-up, recognizing that all the SDGs have targets directly related to the responsibilities of local and regional governments, particularly to their role in delivering basic services (GTF 2016). Despite its robust decentralization, Indonesia has thus far tended to view SNGs as implementers of nationally driven development. The understanding of localization often seems to relate to the degree of convergence of SDG and existing government indicators rather than how SNGs can take up the SDGs and draw directly from associated indicators and targets. This rather centralistic view of localization stands in contrast to the policy and implementation roles of SNGs on many of the SDG targets pertaining to their governmental functions. Indonesia falls somewhat short of a strong acknowledgment that local and regional governments and their national associations are key drivers of the SDGs as promoted by the Global Taskforce of Local and Regional Governments (GTF 2020).

Regional governments were required to issue regulations and establish coordinating structures to prepare action plans for the SDGs. This has happened in the provinces and in most districts/cities. The regional groups on the SDGs have been coordinated by the regional development planning agency (BAPPEDA). They have a similar structure to the national level, with the regional head nominally leading the effort, a technical team led by BAPPEDA, and an expert panel drawn from academia, the private sector, CSOs, and philanthropic agencies. Most provinces have prepared regional action plans for the SDGs (RAD), which have been, or will be, used to influence the SDG content of regional medium-term development plans (RPJMD). It is not clear how many districts/city governments have contributed to the provincially led RAD or how robust these contributions have been.

An elaborate national level steering structure has been established, with its secretariat in BAPPENAS.<sup>10</sup> The SDGs National Coordination Team comprises a steering committee, an implementing (technical) committee, and working groups. These are supported by an advisory expert panel. The apex body is chaired by the President and Vice President of the Republic of Indonesia as Chairman and Vice Chairman, respectively.

The main tools for mainstreaming the SDGs in the regular planning system are the SDGs National Action Plan 2017–2019 and the five-year provincial Regional Action Plans (*Rencana Aksi Daerah [RAD] TPB*). The national plan was timed to coincide with the remaining political life of the government. As the regional head elections are staggered, the regional action plans for the SDGs (RAD-SDGs) are to be aligned with the regional medium-term plans (RPJMD) which are primarily the political tool of the regional heads to realize their political promises.<sup>11</sup> The five-year RPJMDs throughout Indonesia cover different periods, depending on when the respective regional government term begins. The RAD-SDGs are meant to be vehicles for mainstreaming the SDGs in the regular planning system, with medium-term planning being the main entry point. The intent is to ensure consistency between these two medium-term plans. Some adjustment is also possible in annual planning, where any discrepancy between the two medium-term plans can in principle be bridged. The RAD-SDGs is a provincial government document but is expected to contain district/city government contributions. District/city governments may also choose to prepare their own RAD, but this is not obligatory. Despite the comprehensive nature of the SDG RAD, these “plans” are very indicative. Some do not contain allocations, nor are they clearly linked vertically in terms of functional assignment and inter-governmental financing.

Guidance is provided to national and regional actors on planning and budgeting for the SDGs (BAPPENAS 2018), but the approach to planning is not yet well joined to results and intergovernmental functional assignment. National guidance pertains to the form and use of SDG action plans and how to mainstream these within the regular planning system. There is little systematic effort to link expenditures at a more granular level to expected increments of achievement against SDG or other indicators (like the MSS). Efforts to make planning and financing more results/performance-based have been underway for more than a decade. On the planning side, there are now well-established procedures that employ indicators and reporting against targets, but these continue to be largely input-oriented, and reporting is rather formalized. Ultimately, regional government budgets are given more attention than plans, and input costs dominate, with little connection to outcomes through procedures such as activity-based costing (Taufiqurrohman 2014). Intergovernmental grants that are truly performance-oriented are the Regional Incentive Fund (*Dana Isentif Daerah-DID*) and the results-based on-granted *hibah*; together these account for less than 2% of the transfers to regional government (Gonschorek & Schulze 2018). The central government appears to want regional government to be more performance-oriented, with broader outcomes in mind, but is still developing a support and supervision system that would nurture that approach (Muhammad et al. 2020).

National agencies have mounted an intensive effort to monitor the implementation of the SDGs, based on an ambitious “One-Data” approach. One of the long-heard complaints regarding decentralization has been the disruption of data flows from the regions to the central government, which hampers the assessment of regional government performance and the attendant

capacity building response. The reporting burden on regions is extensive, flowing from poorly harmonized streams dominated by different national government agencies; BAPPENAS for development planning, the Ministry of Home Affairs for overall governance; the Ministry of Administrative Reform for accountability and service innovation; and sector ministries for sector specific and technically focused performance. In introducing the SDGs, the government has placed BAPPENAS as coordinator,<sup>12</sup> but it makes use of data gathered from the regions by ministries/agencies and the National Statistical Agency (BPS). It captures relevant incoming data and renders it in an easy-to-read dashboard format for all stakeholders.

### **9.7 Perception and Involvement of Civil Society Organizations in Subnational Governance and Support from Development Partners**

Civil society, in its broad sense, is actively engaged in the SDGs in Indonesia. **Civil society organizations** (CSOs) in particular are an integral part of the SDG National Coordination Team (e.g., on the expert panels, implementation team, and working groups), and they also work closely with some regional coordination teams. The 2017 Voluntary National Review was prepared with four national SDG groupings in mind: government, CSOs, philanthropy and business, and academia and experts. However, civil society engagement is uneven across these groups. The United Nations Development Programme (UNDP) has noted that more needs to be done to include youth and is linking with Gajah Mada University of Yogyakarta and University of Padjadjaran (UNPAD) in Bandung to find ways of helping youth play a meaningful role (UNDP 2018). By 2021, university participation had further broadened, with 23 universities having SDG centers of excellence geared to building awareness on campus and across stakeholders (Republic of Indonesia 2021).

The organized segment of civil society has come together under the Indonesian Civil Society Coalition for the SDGs. The members are the larger and more established CSOs (e.g., the International NGO Forum on Indonesian Development, Oxfam Indonesia) that are active at national level, and several universities<sup>13</sup>. They collaborate to advocate for the implementation and achievement of the SDGs. The Koalisi Perempuan Indonesia (Women's Coalition of Indonesia) is a member of this broad coalition but also undertakes efforts on its own account to promote women's leadership in achieving the SDGs (KPI 2020).

As mentioned above, regional governments are organized as associations, but these are fragmented and under-resourced. On paper, there are seven associations of SNGs (regional governments and village governments) in Indonesia, but these are not all functioning as their mandates would imply. The regional government associations are split based on their roles, with parliamentarians separate from the executive side. At the provincial level, only the association of governors has any presence and influence with the central government. The executive associations of the districts and cities are quite active in training their members

and in advocacy toward national policymakers. In the reform period, regional government associations have traded influence (as closely supported and guided “insiders”) for greater independence from the Ministry of Home Affairs. Hence, there are no framework agreements or structured ways of communicating and negotiating policies or programs between the associations and the central government. Consultation takes place in an ad hoc manner, and the interests of regional governments in policymaking are not well considered, as evidenced by the unsuccessful effort of districts to reject the 2014 recentralization measures. Moreover, the interests of the provincial, district/city, and village governments do not always align. The provincial governments were a beneficiary of the 2014 recentralization that was strongly contested by district governments.

Of their own accord, regional government associations have not made the SDGs a core strand in their policy dialogue with the central government. They have been more focused on supporting their members and on advocacy centered on functional assignment and financing in general. Individually, some provincial and district/city governments have shown initiative and good practices, but these have tended to not be firmly positioned as efforts to achieve the SDGs. Nevertheless, districts and cities have worked hard to generate innovations in their basic services, and more recently to replicate these through the platforms of the newly established provincial innovation hubs. Some associations, such as the Association of Indonesian Municipal Governments (APEKSI) and the Association of Indonesian District Governments (APKASI), have organized training programs for local government officers and stakeholders in Indonesia. APEKSI and the regional chapter of United Cities and Local Governments (UCLG), supported by the European Union, are joining in the LOCALISE SDGs project, launched in July 2018, to promote awareness and deliver technical support to help integrate the SDGs into the local development plans of 16 provinces and 14 cities.

One of the most useful supports provided by development partners has been in data presentation on SDG achievement. This has been the focus of several bilateral (e.g., the German Agency for International Cooperation [GIZ]) and multilateral (e.g., the United Nations Children’s Fund [UNICEF]) agencies. Development partners are also supporting multi-stakeholder partnership and applying service innovations to close SDG gaps. BAPPENAS, supported by the German government (through GIZ), has developed a Guideline for Multi-stakeholders Partnership (MSP) that provides a practical framework to improve partnerships between the government and nongovernment organizations in SDG implementation at the national and subnational levels. Another manual is being prepared by the Ministry for State Administrative Reform to help regional governments identify and replicate existing innovations that will more quickly close priority SDG gaps. This work is being supported by GIZ and UNICEF.

The Asian Development Bank (ADB) has contributed to SNG efforts to attain the SDGs through improving public expenditure management (PEM). Beginning in 2002, ADB provided technical assistance to set up the national and subnational PEM frameworks. This was followed by a second phase in 2008,

which supported the introduction of financial management information systems in 147 local governments and decentralization of the tax framework. In recent years, ADB has also supported the implementation of the SDGs by helping the government undertake fiscal gap analysis for social assistance programs. At the subnational level, ADB provided capacity development to four districts in East Java province to deliver effective, safe, and good-quality education and health services by promoting governance principles. Assistance was also provided to the Ministry of Home Affairs to build the capacity of its Regional Development unit (Bangda) to guide the regional government in fulfilling MSS, many of these being closely related to the SDGs. More recently, ADB worked with regional governments and other stakeholders in East Java to make data from districts available and accessible in a visually attractive and easy to understand way for local stakeholders. This dashboard approach contributed to localizing the SDGs; it also proved helpful in monitoring the COVID-19 pandemic in these districts (ADB 2020b). ADB will help the government mobilize financing, localize SDG targets, and assess how COVID-19 is affecting the achievement of the SDGs. Finances will be mobilized in part through the Sustainable Development Goals Indonesia One–Green Finance Facility (GFF) Phase 1 Project (approved in 2020). This project aims to develop the GFF under the government’s SDG Indonesia One (SIO), a platform dedicated to mobilizing funds from different sources into Indonesia’s SDG projects. The GFF-SIO will be allocated up to USD 600 million from ADB’s ordinary capital resources to finance risk reduction strategies for green infrastructure projects (ADB 2020c).<sup>14</sup>

## **9.8 Current Challenges for Subnational Governments**

In recent years, Indonesia’s decentralization reforms have been undermined by a trend toward recentralization. The lapses in good government at the regional level (e.g., in the extractive industries) or concerns over slow progress in service improvement (e.g., in education) have led the central government to reassign some functions to the central or provincial level, making more use of governors to bring about greater upward accountability. The possibility of returning regional heads through indirect elections has been raised once again. Mechanisms to enhance regional government accountability to the public have been less favored in government policy. Disempowering regional governments could have a knock-on effect on the momentum to achieve the SDGs.

The preparation of the RAD is still a work in process. BAPPENAS’ most recent update reports that 29 of Indonesia’s 34 provinces have prepared their SDG action plans (RAD) and the other 5 are close to finalizing theirs (Republic of Indonesia 2021). It is not clear how many district/city governments participated in these provincial exercises; likely most of them.

A quick reading of several provincial RADs indicates that these documents have a heavy bias toward provincial data and analysis. When the RAD is disaggregated, it is done more by broad categories, such as rural and urban, rather than by district/city.

It is unclear whether the RADs prepared by the regional governments are being used to influence the regular planning documents. Going forward, the government is hoping to harmonize the planning periods of the national and provincial SDG action plans (RAN/RAD) and the national and regional medium-term development plans (RPJMN/RPJMD), but this step will not necessarily increase the influence of the former on the latter.

There is not yet a description of the SDGs that is overlaid or explained by the functions assigned to the four levels of government. This conceptual gap in the SDG framework inhibits the various levels of government from clarifying and addressing their mandates and interests. Given the lack of a detailed mapping of SDGs indicators/targets against assigned functions, the RAN/RAD tend to appropriate the governmental functions of the district/cities. At the national level, for instance, the Ministry of Public Works and Housing continues to plan for and construct water and sanitation infrastructure that is under the jurisdiction of district/city governments, despite much experience showing that it struggles to transfer the built assets to district/city governments in a way that would ensure their proper maintenance and operation.

COVID-19 is making it harder to gain traction on some SDG targets. The government has acknowledged that even under a “bad” scenario, the pandemic will add 1.1 million newly poor and 2.9 million newly unemployed people. Its worst-case scenario projects 3.78 million people falling into poverty and 5.2 million losing their jobs.<sup>15</sup> The central government has not been sufficiently proactive and consistent in its efforts to combat COVID-19 (Ferrazzi et al. 2020). But some measures taken have been crucial to mitigating the impact of the pandemic, such as strengthening local health systems. As a result, SNG expenditures have been shifted in this effort, while their revenues have been under strain. Programs that are crucial to maintain or enhance SDG attainment have therefore been affected. On the more positive side, the pandemic has spurred regional governments to generate digital innovations. The Population and Civil Registration Office of Maros, South Sulawesi, for example, has enabled service users to print citizenship documents at home after registering through a smartphone app (ADB 2020a).

The COVID-19 pandemic has revealed some strains in the coordination and functional assignment pertaining to a health emergency. A national task force for the COVID-19 response was quickly set up in early 2020. Regional task forces for COVID-19 were also created at provincial and district/city levels on the basis of a Presidential Decree. The regional task forces are led by the heads of the regional governments, but they are to operate with due regard to the direction of the Chief Executive of the national task force. However, the national task force does not have a direct link with those at the local level, except to provide guidance on objectives, standards, and procedures. The coordination between levels of government has thus not been optimal and information flows on infections, morbidity, and mortality have not been standardized or shared in a timely way. Tension between the central government and some of the provinces or districts/cities arose on the measures that should be taken to guard against the pandemic; some provinces or district/cities wished to act more decisively as they were closer



to the effects of the pandemic. They looked to the permissive formulations in the Law 23/2014 on Regional Government as justification for taking action. However, contradictory legal streams (existing and newly created to address the pandemic) created uncertainty. Eventually the central–regional struggles led to a decision-making system on the imposition of large-scale social restrictions that seeks to balance the interests of the central and regional governments. Under this system, SNGs can assess their own needs and make requests that are then adjudicated by the central government (Ministry of Health) (Ferrazzi et al. 2020).

In October 2020, Indonesia's Parliament approved the Job Creation Law (commonly referred to as the omnibus law)<sup>16</sup> that amended 77 laws and targeted improvements in business licensing procedures; hiring of workers; economic zones; micro, small, and medium enterprises (MSMEs); and research and innovation. The measures contained in the law seek to address many of the challenges of doing business in Indonesia. For instance, the law requires that investment decisions and business permits be more efficiently coordinated across levels of government, particularly through the application of the Online Single Submission System (Indonesia Investment Coordinating Board 2021). These measures promise to boost investment and jobs and thus reduce poverty, which has increased due to the COVID-19 pandemic. Increasing incomes will enhance the ability of households to afford basic services that are crucial to the attainment of several SDGs. The role of SNGs in making the most of this law will be fleshed out in the 49 implementing regulations that are still being prepared; thus far only a few have been issued. There is some concern that the deregulation and harmonization attempted in the law will diminish the scope of action for SNGs in spatial planning, business permits, and charges (Wahyuningroem 2020). This could limit the ability of SNGs to manage their development and finance the delivery of services that are part and parcel of achieving the SDGs. The net benefit of the omnibus law will only be evident after some years.

The low proportion of own-source revenues continues to pose a severe challenge to SNGs in gaining the resources and freedom to pursue their own priorities within the SDG framework. In view of regional diversity, and the functional assignment related to SDGs, it is understandable that SNGs will stress different indicators or have different priorities and trajectories in achieving SDGs. The Indonesian 2021 Voluntary Subnational Review for the SDGs reveals a wide range of postures in this regard among SNGs (APEKSI et al. 2021). Allowing SNGs a measure of discretion in pursuing the SDGs, and resources sufficient to match their ambitions, is crucial. In this regard, the effort to update the law on regional taxes (Law No. 28/2009) may hold some promise for greater mobilization of local resources, and greater flexibility to pursue regional goals by virtue of a higher proportion of own-source revenues.

## 9.9 Conclusions

On the back of robust decentralization reforms enacted two decades ago, and despite some recentralization in recent years, Indonesia has created a generally

enabling environment for regional and village government to play a strong role in the achievement of the SDGs. SNGs account for at least 50% of expenditures and play a dominant role in the delivery of public services. With a strong regional government contribution, Indonesia has made strides in achieving the Millennium Development Goals (MDGs), achieving 49 of 67 indicator level targets. Together with recently empowered village governments that are under regional government tutelage, regional governments are poised to be significant players in achieving the SDGs.

Government support for the SDGs is substantial, given evidence by legal instruments such as presidential decrees. A wide swath of stakeholders is becoming involved and new platforms for collaboration are being created. Localization of the SDGs is an accepted approach in Indonesia, but it is often understood as an effort to show how the national development planning system already accommodates the global agenda. Priority is given to national level action, and the important role of SNGs in realizing the SDGs through their own devolved functions and resources is not given sufficient attention. Financing and technical support for SDG achievement at the SNG level is thus ad hoc and poorly elaborated. The more home-grown initiative of nationally set minimum service standards for regional government is not well woven into the pursuit of the SDGs. The linkages of SNGs with other actors is formalized at all levels but does not yet lead to intensive co-management and collaboration that could accelerate the achievement of the SDGs.

Intergovernmental coordination and policy coherence has come through a formalized and rather top-down approach. Presidential Decree No. 59/2017 requires the integration of the SDGs in national and regional government planning, with the key entry point being the medium-term development plan. The integration relies on an overall national SDG roadmap and provincially led action plans (RAD-SDGs), annual reports, and bi-annual monitoring exercises, all coordinated by BAPPENAS. The government's communications strategy is substantial, comprising technical guidelines, training, and well-defined metadata indicators. The role of the governor, as a representative of the central government, is seen as pivotal in bridging national and regional government efforts. The scale of the formal effort is therefore large and its intent to achieve an integrated approach is ambitious. However, this coordination effort is hampered by its top-down nature and weak linkages to the "regular" planning.

The role given to the provincial-level actors offers them a strategic bridging role and some tailoring to local conditions. However, to date the plans prepared by the provinces show a provincial bias that limits ownership at lower levels and makes it difficult to focus efforts on reaching those furthest behind first. The lack of disaggregated data in the SDG reporting system below the provincial level may be rectified in time through the ambitious One-Data and SDG dashboard approaches favored by BAPPENAS, but that could take several years to bring about. Monitoring of the implementation of SDGs at the scale of district/city government—where much of the effort is undertaken, particularly in basic service delivery—is a challenge that has yet to be fully confronted.



The pursuit of the SDGs has yet to be strongly tied to results-based planning, where expenditure levels are set in relation to outputs or outcomes. This is true at both the national and the regional level. Some small steps are being taken in this direction; experience with costing MSS achievement, and costed innovations in public services that are attached to specific output/outcome gains, are disseminated across regions by the central government and provincial government initiatives (e.g., innovation hubs). Indonesia is relatively open about its approaches and achievements toward the SDGs by taking part in the voluntary reporting mechanism. This augurs well for convening stakeholders and charting new approaches to mobilize financing and more robustly localize the SDGs.

## Notes

- 1 See the Introduction for an elaboration of this concept.
- 2 See explanations in Law 23/2014 on Regional Government.
- 3 The transfer of functions has not been conducted in the same formal manner as that for regional government; various legal and guidance instruments pertaining to village government have been used to shape the possible actions and responsibilities of village government, leading to a rather incoherent framework.
- 4 Peraturan Menteri Desa, Pembangunan Daerah Tertinggal, Dan Transmigrasi Republik Indonesia Nomor 11 Tahun 2019 Tentang Prioritas Penggunaan Dana Desa Tahun 2020.
- 5 This proliferation has not appreciably improved service delivery in the new regions (Lewis 2017).
- 6 DPOD membership included the Minister of Home Affairs as Chairperson and the Minister of Finance as Vice Chairperson, Members included the Ministers of Defence, Justice and Human Rights, Administrative Reform, National Development, State Secretariat; Cabinet Secretary; three representatives of the regions; and up to three individual experts.
- 7 This section draws generously from the author's contribution to the Indonesian case study published in the World Bank (2019) *Lessons from International Experience on Fiscal Decentralization for Regional Governments. Volume II: Overview and Case Studies: Colombia, Indonesia, Poland and Spain*.
- 8 For the period 2000–2015; for mothers, mortality dropped from 265 to 126 (per 100,000 live births) and for children under 5 from 52.3 to 26 (per 1,000 live births).
- 9 Government set this target to be achieved by 2019; 100% provision of viable drinking water, 0% slums, and 100% viable and safe sanitation.
- 10 Keputusan Menteri (Kepmen) PPN/BAPPENAS Nomor KEP.127/M.PPN/HK/11/2018 Tentang Pembentukan Tim Pelaksanaan, Kelompok Kerja, dan Tim Pakar Tujuan Pembangunan Berkelanjutan Tahun 2017–2019.
- 11 The RPJMD must also be agreed with the regional parliament, and the latter has a role in setting the annual budgets as well. Even so, the role of the regional head (Governor, Regent, Mayor) is dominant in these processes.
- 12 Minister of National Development Planning Regulation No. 7 Year 2018 on Coordination, Planning, Monitoring, Evaluation, and Reporting of the Implementation of Sustainable Development Goals.
- 13 See <https://www.sdg2030indonesia.org/page/7-koalisi-cso> (accessed 11 May 2022).
- 14 See also ADB (2021:68) and ADB/UNDP (2020) for details on SDG support in Indonesia.

- 15 Jakarta Post. 2020. *Achieving SDGs in the New Normal: How to enter the decade of action*. July 15. [www.thejakartapost.com/adv/2020/07/15/achieving-sdgs-in-the-new-normal-how-to-enter-the-decade-of-action.html](http://www.thejakartapost.com/adv/2020/07/15/achieving-sdgs-in-the-new-normal-how-to-enter-the-decade-of-action.html).
- 16 Law no. 11/2020 on Job Creation (*Undang-Undang no. 11/2020 tentang Cipta Kerja*).

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# 10 Decentralization, Local Governance, and Localizing the Sustainable Development Goals in Mongolia

*Hans van Rijn and Roger Shotton*

## 10.1 Constitutional and Legal Framework for Subnational Governments and Core Functions

### *Overall Setup*

Arrangements, powers, roles, and functions of subnational governments (SNG) in Mongolia are defined in several different laws. There is no single organic legal instrument which provides a comprehensive definition. The 1992 Constitution of Mongolia (Chapter 4) (Government of Mongolia 2012) and the Law on Territorial Units and their Governance (LATUG) (Government of Mongolia 2006) as revised in 2020<sup>1</sup> provide for two SNG tiers: an upper tier, which includes Ulaan Baatar Municipality (MUB) and the *aimags*,<sup>2</sup> and a lower tier, which consists of urban districts and rural *soums*. Each tier has a dual institutional structure of government, similar to that found in many countries of the Community of Independent States (CIS)<sup>3</sup> and in Viet Nam:

- A legislative assembly (*hural*) supported by a full-time secretariat. *Hurals* serve a four-year term. The full *hural* is elected on a party list basis and usually meets two to four times a year, with a presidium (standing executive committee) and specialized committees meeting on a more frequent basis.
- An executive branch headed by an indirectly elected governor, who oversees the two different executive arms of the SNG comprising (i) the core departments directly under the governor and (ii) the deconcentrated subnational sector ministry departments, which are under the joint supervision of the governor and their parent ministries in Ulaan Baatar.

### *Roles and Powers of the Two Branches*

Figure 10.1 shows this dual, divided SNG institutional setup, which differs from the more organically integrated “local government” setups where the legislative assembly has some direct control over the executive branch (as seen in South Asia, the Philippines, or Indonesia). Within this setup, the governor and his/her office staff are mainly responsible for planning, implementing, and

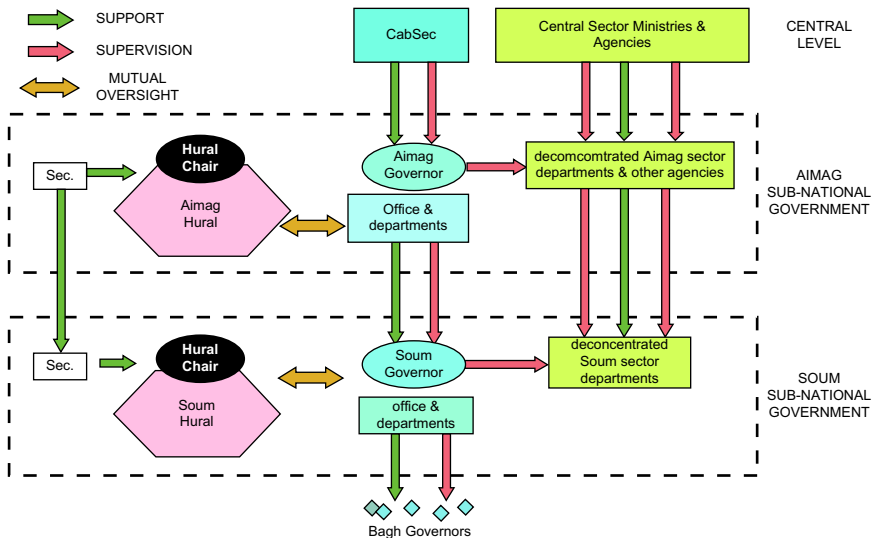


Figure 10.1 Subnational Government Institutional Setup in Mongolia.

Source: Authors.

reporting on the delivery of local public services. According to Article 29 of the LATUG, responsibilities of the governor include (i) the preparation of plans and budgets and their submission to the local *hural* for review and approval; (ii) the implementation of approved plans and budgets, including the development of projects and programs to implement such plans and budgets; (iii) the implementation of state policies and laws, and of local *hural* laws and resolutions; (iv) the development of agriculture, land, natural resources, and local infrastructure; (v) the administration of social services; and (iv) the promulgation and application of national and local policies and regulations on law and order and security.

The local *hural* is an elected body responsible for setting local policy and priorities, and for monitoring and oversight of planning and implementation. Articles 18 and 19 of the LATUG specify that the local *hural* (i) approves and amends the socioeconomic strategy, the governor's budget, or the budget implementation; (ii) monitors and evaluates the governor's implementation of local *hural* resolutions or legislation; (iii) decides on the establishment and oversight of local development funds with non-budgetary revenues and coordinates the local socioeconomic development strategy with the regional strategy; (iv) imposes fees and tariffs within the limits of legislation; (v) approves land use management plans and programs; and (vi) exercises local property ownership rights as the local *hurals* are the legal property owners of local socioeconomic infrastructure such as wells, kindergartens, schools, clinics, hospitals, parks, and playgrounds.

There is a common view that the roles described in the LATUG are rather blurred, weakening horizontal coordination and accountabilities, and that local *hurals* often play little more than a “rubber stamp” role, due to unclear legal provisions regarding their relationships with the executive branch.

### *Urban–Rural Settings*

The arrangements outlined above make no distinction between urban and rural settings. However, the Law on Legal Status of Cities & Settlements adopted in 1993 (Government of Mongolia 1993) and the Law on the Legal Status of the Capital City in 1994 (Government of Mongolia 1994) provided a legal framework for urban centers within the territorial units legislated under LATUG. This legislation introduced a mayor’s office for MUB and two other larger urban centers, and thereby created arrangements which partly overlap with those of LATUG for the governors, as outlined above. Generally, urban SNGs lack the regulatory and coordinating powers needed to address the specific governance challenges of urban and peri-urban areas.

Revisions to the legislation governing the status and powers of MUB, which would recognize the specific governance challenges of the fast-growing capital city, have been pending with the Grand State *Hural* (national parliament) for several years now. But implementing this legislation would require a constitutional amendment, since the Constitution of Mongolia currently puts the capital city and *aimags* on an equal legal footing.

### *Functions*

More detailed functions of the SNG are spelled out in the 2012 Budget Law. This law differentiates two sets of SNG expenditure functions: (i) base expenditure functions funded from local budget revenues, including deficit transfers; and (ii) delegated expenditure functions funded by special purpose transfers. The delegated expenditure functions are in the social sectors (education, health, and social welfare), while the base expenditure functions focus mainly on general administration, some social welfare activities, and minor infrastructure investment, operation, and maintenance (see Table 10.1 for details).<sup>4</sup>

It is tempting to view base expenditure functions as devolved functions, but the nature of the budgeting system (see further below) effectively precludes any significant local discretion over even this spending, aside from minor investments financed by the Local Development Fund (LDF), thus minimizing any notion of local autonomy normally associated with this modality of decentralization.

Delegated expenditure functions in each sector are assigned to *aimags* and *soums* on the basis of cascading contractual agreements between line ministries and *aimags*, and then between *aimags* and *soums*; the terms of these agreements may vary between *aimags* and *soums*. All delegated spending is tightly regulated by sector ministry guidelines and detailed budget norms. Capital spending in the sectors concerned (for schools, health facilities, etc.) is excluded, remaining almost entirely with the central government budget.<sup>5</sup>

*Table 10.1* Subnational Government Functions under the 2012 Budget Law (Mongolia)

<i>Sector</i>	<i>Aimags and Capital City</i>	<i>Soums and Districts</i>
<i>Base Expenditure Functions (Budget Law, Article 58)</i>		
Social welfare	Social care and welfare (upon decision of governors).	Social care and welfare (upon decision of governors)
Transport and roads	Playgrounds. Public transport. Aimag and inter- <i>soum</i> roads.	Playgrounds. Street lighting maintenance.
Water and sanitation	Street lighting. Water supply. Sewerage and drainage. Waste removal. Public hygiene.	Public hygiene, street cleaning, and waste removal.
Agriculture and livestock	Livestock restocking. Pasture management. Pest control.	Livestock restocking. Pasture management.
Economic development	O&M electric distribution network, Development of SMEs.	
Environment	Environmental protection and rehabilitation. Flood protection.	Environmental protection.
Capital infrastructure	Urban planning and construction of new infrastructure. Maintenance of locally owned buildings.	
<i>Delegated Expenditure Functions (Budget Law, Article 61)</i>		
Education	Pre-school, general education, fitness, and culture.	Pre-school, general education, fitness, and culture.
Health	Primary health care.	Primary health care.
Social welfare	Child protection and development.	Child protection and development.

Source: Budget Law (2012).



SNG spending responsibilities in both categories may be expanded in the years ahead, following an ongoing review of responsibilities supported by the Swiss Agency for Development and Cooperation (SDC). Indeed, the Budget Law itself has recently been amended to mandate a biannual review of SNG responsibilities.

## 10.2 Basic Data on Subnational Governments

### *Subnational Government Units*

There are two tiers of legally constituted SNGs: the upper tier (capital city and *aimags*) and the lower tier (capital city districts and rural *soums*). Of these, the upper tier is the main one, enjoying most subnational powers and functions, and the most political influence at the central level. *Soums* are very much subordinate bodies to the *aimags*, to which they report. As already noted, *aimags* have a considerable degree of delegated authority in oversight and supervision of the *soum* tier on behalf of central government.

Below this are local administrative units (*khoroos* or sub-districts in the capital city, and *baghs* in the rural *soums*), to which governors are appointed by district and *soum* authorities. This lowest tier serves primarily as a forum for community consultations convened by the governors. These ad hoc community-wide meetings are commonly referred to as *khoroos* or *bagh hural*s, although in fact there is no formally elected *hural* at this tier.

Table 10.2 indicates the numbers of units at each tier.

### *Human Resources*

There are several categories of human resource within the dual SNG structures:

- The elected chairperson and other representatives on the SNG *hural*s, who are part-time except for presidium members.
- Secretariat staff working in support of the SNG *hural* and its chairperson and presidium.
- The indirectly elected SNG governors and their deputies.
- Staff working in departments directly and solely under the authority of the SNG governor.

Table 10.2 Subnational Government Units in Mongolia

<i>Capital City</i>	<i>Other Areas</i>
Ulaan Baatar	<i>Aimags</i> (Provinces)—21
Districts—9	<i>Soums</i> —330
<i>Sub-districts/Khoroos</i> —151	<i>Baghs</i> —1559

Source: Government of Mongolia 2017.

Table 10.3 Breakdown of Elected Subnational Government Representatives in Mongolia

Local Elected Representatives	Territorial Units Outside Capital City		Capital City	
	<i>Aimag</i>	<i>Soum</i>	UB City	District
<i>All Hural Representatives</i>				
Total	762	7001	45	291
Women	120	1952	10	82
<i>Women as percent of total</i>	15.7%	27.9%	22.2%	28.2%
<i>Presidium members</i>				
Total	219	2233	9	63
Women	38	642	2	19
<i>Women as percent of total</i>	17.4%	28.7%	22.2%	30.2%
<i>Chairpersons</i>				
Total	21	330	1	9
Women	0	47	0	3
<i>Women as percent of total</i>	0	14.2%	0	33.3%

Source: UNDP/SDC (2018).

- Staff working in deconcentrated sector departments and other agencies deployed to the SNG level, who operate under the dual authority of both the governor and the relevant central ministry or agency.

The Mongolian Statistical Yearbook for 2017 (Government of Mongolia 2017) indicates that a total of 193,500 civil servants are deployed to the subnational level, of which 60% are women. No statistical breakdown by SNG is available, but in one *aimag* (the smallest, Govi-Sumber, population 17,500) the total number of civil servants of all categories was reported to be around 480, not including the 870 teachers, health workers, and social workers.<sup>6</sup> This results in a ratio of one civil servant for 36 residents—a very high ratio compared to many other Asian countries.

There are 8,099 elected *hural* members for *aimags* and *soums* combined, with significantly greater elected female representation at the lower *soum* level than at *aimag* level (see Table 10.3). There are no female *aimag* chairpersons, and only a modest 14.2% of *soum* chairpersons are women. Overall, 26.7% of the elected representatives at both SNG levels are women, but the *aimags* show a significantly lower percentage (15.7%) than lower level *soums* (27.9%). A similar pattern is seen in the makeup of the “managing” presidium membership (17.4% and 28.7% respectively, for *aimags* and *soums*).

These levels in Mongolia compare to an overall 2013 average of 20.8% women’s representation on subnational councils across all Asia and Pacific countries, and of 21.7% in East Asia.<sup>7</sup>

### BOX 10.1 THE CHALLENGE OF INCREASING WOMEN'S REPRESENTATION ON THE *HURALS*

The need to build the capacities of women representatives is widely recognized and is an SDG indicator on which progress needs to be made. The UNDP's Strengthening Representative Bodies of Mongolia project has developed a leadership program for women in elected offices. The project is intended to motivate women to provide leadership in their communities and *hurals*, stand for elections, seek common solutions to local problems, and increase their ability to influence the decision-making process in *hurals*. It aims to eventually increase of number of women candidates and elected representatives.

Source: Authors' compilation.

### *Financing Resources*

SNG spending in Mongolia is financed from own-source revenues and from fiscal transfers.<sup>8</sup> There is presently no borrowing.

- Own-source revenues:* The Budget Law assigns a set of modest revenues to SNGs (see Table 10.4), while also reducing the previous degree of revenue sharing between levels and assigning the bulk of mineral tax revenues to central government. It must be noted that the taxation rates for all such revenues, even if assigned to SNGs, are approved centrally by the Ministry of Finance (MOF) Revenue Division and the Great State *Hural*, unless such powers have been delegated to SNG *hurals* (as is reportedly the case for one or two land use related fees). All revenues are collected by the General Tax Department of the MOF, which has offices in all SNGs.

In 2017, own-source revenues made up 18% of all SNG revenues (and hence are greatly overshadowed by fiscal transfers) but, unsurprisingly, those generated in Ulaan Baatar accounted for 60% of this total.<sup>9</sup> The great bulk of these revenues stem from income taxes, with property tax revenues at a surprisingly low 11%.
- Fiscal transfers:* There are three main types of fiscal transfer to SNGs: (i) deficit transfers, (ii) special purpose transfers, and (iii) LDF transfers. There are also fiscal transfers from the few “surplus” SNGs upwards to the central government. This “deficit or surplus” model for SNGs is typical of other CIS countries, and other countries with a history of socialist economic management, such as Viet Nam and Lao People's Democratic Republic (Laos).<sup>10</sup> Figure 10.2 provides an overview of their relative importance and of trends in recent years. (Surplus transfers from *aimags* up to the central government are denoted as negative SNG revenues.)

Table 10.4 Decentralized Revenue Powers under the Budget Law

<i>Aimags and Capital City</i>	<i>Soums and Districts</i>
<i>Tax Revenues, Fees, and Charges (Budget Law Articles 23.6 and 23.8)</i>	
<ul style="list-style-type: none"> <li>• Personal income taxes (as under Art. 8.1.1 of the PIT Law).</li> <li>• State stamp tax (other than that specified In Art. 11.2 of State Stamp Tax Law).</li> <li>• Capital city taxes.</li> <li>• Land fees.</li> <li>• Immovable property tax.</li> <li>• Vehicle and carriage tax.</li> <li>• Inheritance taxes.</li> <li>• 20% license fees for petroleum exploration and exploitation.</li> </ul>	<ul style="list-style-type: none"> <li>• Personal income taxes (other than those collected by <i>aimags</i>/capital city).</li> <li>• State stamp tax (other than that collected by <i>aimags</i>/capital city).</li> <li>• Hunting fees.</li> <li>• License fees for use of natural resources other than minerals.</li> <li>• Natural plant fees.</li> <li>• Timber fees.</li> <li>• Fees on use of widespread mineral resources.</li> <li>• Household Water Use Fee.</li> <li>• Income tax of self-employed.</li> <li>• Dog fees.</li> <li>• Waste removal charges.</li> <li>• 10% license fees for petroleum exploration and exploitation.</li> </ul>
<i>Other Revenues (Budget Law Articles 23.7 and 23.9)</i>	
<ul style="list-style-type: none"> <li>• Dividends on SNG-owned bodies.</li> <li>• Charges and sale revenues from SNG-owned assets.</li> </ul>	<ul style="list-style-type: none"> <li>• Dividends on SNG-owned bodies.</li> <li>• Charges and sale revenues from SNG-owned assets.</li> </ul>

Source: Budget Law (2012).

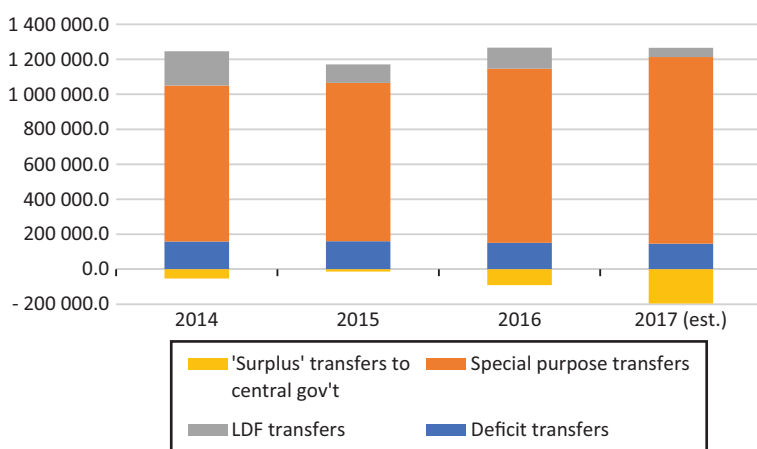


Figure 10.2 Intergovernmental Fiscal Transfer Trends.

Source: Authors' illustration based on budget data from Mongolia National Statistical Yearbook (2017).

Given the predominance of fiscal transfers in SNG financing it is important to review them in more detail since neither deficit nor special purpose transfers fully correspond to intergovernmental grant transfer instruments as found elsewhere:<sup>11</sup>

- (i) *Deficit transfers*: These are transfers made to SNGs at the *aimag* or *soum* level to cover the deficit between approved base expenditures and revenues, reflecting the inherited socialist public finance system. In 2017, 15 of 21 *aimags* received such transfers. In aggregate, these transfers constituted 6% of all SNG revenues, and equated to 13% of all SNG own-source revenues. However, for individual “deficit” SNGs, the transfers were in some cases significant. For example, in 2017 they amounted to 21% of all revenues for Khuvsgul *aimag* and 20% for Uvs *aimag*.

Deficit transfers are not grants in the usual sense. They are determined by a process of bilateral negotiation between the central government and the SNGs *after* the SNGs have submitted their budget proposals to central government. This form of transfer mechanism, commonly known as “negotiated gap filling,” is common across CIS countries, and in the Lao People’s Democratic Republic and Viet Nam.<sup>12</sup> There is substantial evidence from other countries that such mechanisms are replete with negative incentives for local revenue raising and for sound local planning and budgeting. They also make it harder to ensure revenue and spending equity between SNGs.

- (ii) *Special purpose transfers*: These are transfers to SNGs to finance recurrent expenditures for the functions delegated to them (which before 2012 were on the central government budget). They include pre-school, general education, cultural services, primary health care, land and cadaster services, child development and protection, and public fitness activities. Of these, by far the most significant are those for education and primary health care. The allocation of special purpose transfers is based on agreements negotiated between individual *aimags* and the sector ministries concerned, and in turn between *aimags* and their *soums*. These transfers, combined, constitute the main SNG revenue source; in 2017, they constituted 44% of all SNG revenues, ranging from 30% of Ulaan Baatar revenues to 79% of Govi-Sumber revenues.

Special purpose transfers are also not grants in the usually accepted sense. They are not pre-allocated to SNGs in the way that LDF grants are (see below). Instead, SNGs apply to funding windows, and allocations are then made centrally by the sector ministry and the MOF based on the prior contractual agreements. The contractual agreements themselves are tightly determined by central budget norms which dictate all staff-related and other unit operating costs and leave SNGs almost no flexibility. There are no clear legal provisions for delegated capital expenditure responsibilities in these social sectors; they are still largely under sector ministry control and funded under the central government budget.

- (iii) *Local Development Fund transfers*: These transfers to SNGs began in 2013 and are the only budget resources available to SNGs for discretionary capital investment spending on devolved responsibilities. The LDF transfer

mechanism comprises two components: one allocates grants to SNGs by formula, and the other shares percentages of certain mining-related revenues with SNGs where mining operations are located. After starting at high levels, the overall LDF transfers showed a sharp decline from 2015 to 2018. This was in part due to the budget crisis arising from a sharp drop in mining revenues, and in part due to changes in funding sources and allocation percentages for the LDF. The reduction in LDF allocations was even sharper for *soums* than for *aimags*. Figure 10.3 illustrates the changing LDF funding sources and the relative share of the *soums*. Since 2019, LDF funding is again on the increase, although it is reported that cutbacks were made to 2020 LDF funding in the central budget due to revenue shortfalls stemming from the COVID-19 pandemic.

The introduction of the LDF as a budgetary resource has been a major innovation allowing, for the first time, real local priority-setting and meaningful local participation. It has sparked considerable interest both within

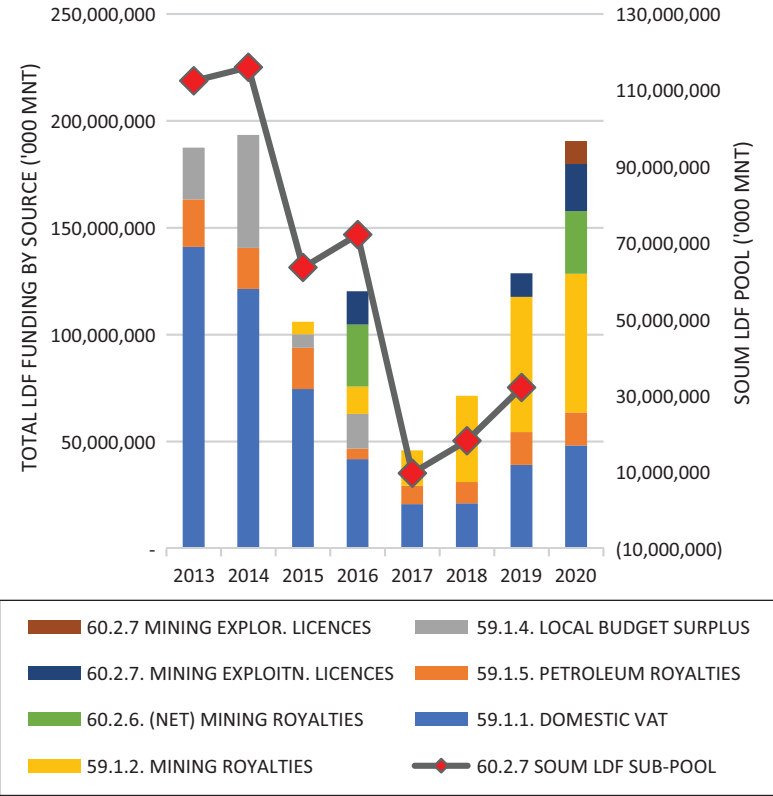


Figure 10.3 Local Development Fund Financing Trends.

Source: Authors' illustration based on budget data from Ministry of Finance.

local civil society eager to engage with SNGs and among development partners. However, the annual changes in LDF funding (see Figure 10.3) have caused serious problems for SNG investment planning and undercut community incentives to participate, especially at the *soum* level.

Two recent changes to SNG funding policy, reflected in amendments to the Budget Law which will come into effect in 2022, are worth noting. First, 40% of corporate income tax revenues (to date reserved for central government) will be retained by SNGs to finance recurrent spending – though this will likely reduce the deficit transfers. Second, *soums* will be allowed to collect a new livestock tax (for which they will be able to set tax rates) to be used for local livestock and pasture development through the LDF budget mechanism; for some *soums* this will significantly increase LDF spending capacity. However, detailed policy guidelines have not yet been developed.

A specific provision under Article 62.2 of the original Budget Law had allowed borrowing by MUB to finance certain types of local spending, but within ceilings linked to local revenues and with a maximum four-year loan repayment limit.<sup>13</sup> However, this borrowing provision was repealed in the 2015 amendments to the law, perhaps in relation to the budgetary crisis then gathering pace around the decline in national mining revenues. The only form of borrowing which is presently allowed to MUB and *aimag* administrations is that specified under Article 62 of the Budget Law, which provides a short term overdraft facility for local borrowing from the central budget for essential spending when approval of the national budget is delayed.

### 10.3 Key Central Government Institutions and Policy Framework

#### *Central Government Institutions, Supervision, and Coordination*

In Mongolia, as in many CIS countries, there is no single body with a clear SNG oversight and policy mandate, such as a ministry of local government or home affairs, as is seen in some other countries. At the central government level, this role is to some extent played by the Cabinet Secretariat's Directorate of Local Administration (CS/DLA). The CS/DLA is responsible for: (i) issuing central government regulations, directives, and occasional policy or legal reform initiatives for SNGs; (ii) organizing and financing SNG staff training, usually undertaken through the National Academy of Governance; (ii) monitoring compliance through its Monitoring, Evaluation, Inspection & Audit Department (MEIAD), and reporting on this to the prime minister and to Parliament; (iv) convening governors for policy briefings and debriefings to support national program implementation or to address local or regional crises or disasters triggered by natural hazards; and (v) intervening with other parts of central government on behalf of SNGs (for example, facilitating *aimag* negotiations with sector ministries over their contracts for delegated functions).

Supervision of SNGs is managed on a “cascading” basis. The CS/DLA provides supervision of *aimag* governors and their staff, and of *aimag hural*s. In turn, *aimag* governors and CS/DLA monitoring staff at the *aimag* level provide similar supervision of *soum* governors and staff. Similarly, *aimag hural*s and secretariats supervise *soum hural*s.

The MOF plays a key role in policy and oversight of SNG financing and financial management; however, there is no dedicated SNG finance department within the MOF to act as a focal point for SNG finance issues other than a one-person unit to manage the LDF (see further below). The various central MOF divisions each provide support and supervision to their corresponding *aimag* departments in the different areas of budgeting and public financial management. *Aimag* finance staff, in turn, provide support and supervision to their counterparts at *soum* level. However, currently there is no comprehensive upward reporting by SNGs and no monitoring of overall SNG budgets and finances by the MOF. At best, the MOF can track *aimag* finances, but tracking of *soum* finances is delegated by the MOF to the respective *aimags*.

Aside from MOF supervision, SNGs are subject to external audit and supervision controls by two national agencies:

- The Mongolian National Audit Office (MNAO) is the supreme auditing authority and reports to the Great State *Hural*. It has offices in each of the *aimags* which conduct financial, performance, and compliance audits of the *aimag* and *soum* administrations and of government facilities such as schools and hospitals. But given the various constraints, in any year only a fraction of SNGs and other local budget entities are subject to audit.
- The State Inspection Agency (SIA) has a very wide-ranging mandate that covers inspection of financial management and legal compliance by all state organizations, including SNGs.

There is no formal mechanism at the central government level by which ministries and departments can coordinate SNG policies and affairs—apart from through the Cabinet itself, which usually deals with much weightier political and policy matters. Where coordination does take place, it appears to be through ad hoc bilateral consultations among ministries. Coordination between the central government and SNGs appears to be through periodic workshops held by CS/DLA with *aimag* governors to discuss policy implementation performance. *Aimag* governors, in turn, hold similar periodic meetings with their *soum* governors. *Aimag* governors and the Ulaan Baatar mayor undertake their own ad hoc bilateral consultations with ministries on specific issues.

Central sector ministries (education, health, labor, and social protection) make annual contractual agreements with each of the *aimags* to set out the terms of use for the delegated functions financed by special purpose transfers. *Aimag*s are in turn supposed to make similar agreements with their *soums*, although the extent to which this is actually practiced is not clear.



The lack of a single ministry as central focal point for policy, inter-ministerial coordination, and broad support and oversight of SNGs constitutes a challenge for policy development around central-local relations and for capacity support to SNGs. Effective delegation of monitoring and oversight of *soums* to *aimag* authorities deprives the central government of important information on overall SNG performance.

### ***National Policies and Strategies Regarding Subnational Government***

Government policy on decentralization has oscillated since emergence from the socialist era in 1990:<sup>14</sup>

- During 1991–2002 SNGs were granted considerable autonomy and discretion.
- During 2002–2013 powers were recentralized, and SNGs were left essentially as agents of central government. This situation arose from central concerns about local policy making, public finance, and budget management during the previous period.
- From 2013 until the present, following passage of the new Budget Law in 2012, there has been a gradual move back to assigning modest responsibilities and resources to SNGs.

Until very recently there has not been any clear policy statement by government articulating a vision for decentralization and the role of SNGs. However, Government Resolution No. 350 of June 2016 (Chapter 2) proposed the following reform directions:

- Functional responsibilities for all local public services will be decentralized to SNGs, on a phased basis.
- Adequate budgetary resources—through greater tax powers and fiscal transfers—will be provided to SNGs to undertake these new mandates.
- Arrangements will be put into place to ensure the necessary coordination between SNGs and central government.
- Generally, these reforms will be informed by international experience and will aim at greater citizen participation and accountability.

Although this policy statement offers a promising vision, to date there is little sign of any these reforms having been carried forward. Indeed, it is unclear to what extent there is both the political commitment and the inter-ministerial coordination capacity at the central level to translate the statement into a coherent set of increased powers, responsibilities, and resources for SNGs. However, even if such political commitment exists, the policy space of Mongolian authorities to deliberate and enact any complex and challenging moves toward greater

decentralization has very probably been crowded out in recent years. This is due to the more compelling national challenges ensuing from managing the fiscal crisis of 2016–2018 and, more recently, the COVID-19 pandemic.

## 10.4 Performance of Subnational Governments

There is of course a wide variance in context and levels of socioeconomic development between the regions of Mongolia, among the *aimags*, and between the urban and rural areas. Much of this has to do with underlying patterns of population, development, economic activity, trade, and resource endowments, among others.<sup>15</sup> To a degree this variance also reflects the performance of SNGs in the jurisdictions concerned.

### *Revenue and Spending Patterns*

SNGs account for about 15% all government revenues, although two-thirds of these accrue to MUB. SNGs account for about 28% of total public spending. Approximately 80% of this is on current budget and 20% is on capital budget spending. About 50% of current spending is on staff-related costs, 30% is on various social welfare transfers, and 20% is on operations and maintenance costs. New construction accounts for approximately 57% of capital spending; repairs and equipment about 4%; and “other capital” (undefined) about 38%. However, MOF budget data does not reveal SNG sector or program spending patterns.

Evidence from one sample *soum*<sup>16</sup> for which data was available suggests that 60% of spending is on delegated social services (mainly education), funded by the corresponding special purpose transfer revenues; 19% of spending is on investments funded from the LDF; and 19% of spending is on the administration costs related to the governor’s office, the *hural*, and its secretariat, funded by the deficit transfer and the meager own-source revenues. A negligible 2% of spending is on environmental and pasture development, funded from very small central transfers.

Given the predominance of special purpose transfer revenues for both *soums* and *aimags* we can expect that this pattern is fairly common and that general SNG spending, at least outside of Ulaan Baatar, is also dominated by the delegated social sectors.

However, the efficiency, effectiveness, and equity of SNG spending is subject to several constraints derived partly from the budget process, and partly from the manner in which transfers are allocated across *aimags* and *soums*.

### *Central Budget Norms*

All SNG spending on delegated social service functions and financed by special purpose transfers is very tightly regulated by ministry budget norms. For example, for education, allowable spending levels per student are specified on different categories of expense, with coefficient variations by geographic/urban–rural

context. All local budget proposals are submitted to the sector ministry where they are adjusted for consistency with these budget norms. As noted, Special Purpose Transfers (SPT) cannot be used to finance capital investment spending in these sectors—this is almost entirely on the state budget, to which local authorities may submit proposals but where decisions are made by central ministries. The problems arising from lack of local decision-making power over social sector budgets, and the impact on service delivery equity and effectiveness, have been raised in several recent reviews.<sup>17</sup>

### *The “Nested Budget” Structure and Process*

In conformity with the inherited socialist public finance system, SNG budgets are “nested.”<sup>18</sup> *Soum* budgets are rolled into and approved as part of the *aimag* budget, and *aimag* budgets in turn are approved as part of the state budget. This means that SNGs must first prepare budget proposals and present them to the central government, which cuts back and adjusts these proposals. The state *hural* then approves an overall budget, which includes aggregate spending and fiscal transfer ceilings for each *aimag*. Within these aggregate ceilings, the *aimags* and their *soums* have to finalize their detailed budgets, but they have only a week or two to do this. Figure 10.4 depicts this process.

### *Impact of Budgeting Framework on Service Delivery Performance*

This process outlined above impacts negatively on SNG spending efficiency and effectiveness. Without hard advance budget ceilings, *soums* and *aimags* are

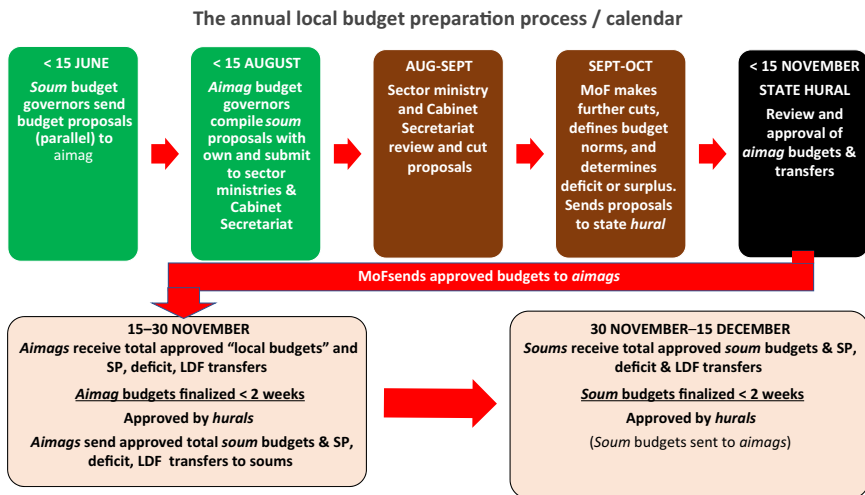


Figure 10.4 Annual Budget Process.

Source: Authors' illustration based on budget process stipulated in the Budget Law (2012).

encouraged to prepare spending wish lists, often with little attention to real priority setting. The central government cuts back on these budget proposals with little or no consultation with the *aimag* officials who would have much better understanding of where cutbacks are best made. *Aimags* in turn transmit budget and transfer ceilings to their *soums*, but there is evidence of substantial variation in how this is done.

The negative effects of the budget process are especially marked for capital investment spending, other than that funded by the LDF. Here, the lack of any advance budget ceilings leads to inflated wish lists and poor capital project preparation. One *aimag* reported that it proposed capital project spending of MNT30 billion for 2018; of this, only MNT2 billion was approved, and no explanation was given to the *aimag* for how the decisions on approvals and rejections were made. It is also widely reported that the capital budget is especially prone to political interference in project approvals.

By contrast, despite some flaws in the procedures and some capacity constraints, the LDF transfer mechanism provides SNGs with some advance notice and—crucially—allows SNGs to set their own budget priorities without any advance clearance needed from central government.

The combination of rigid central budget norms, negotiated gap filling deficit transfers, and a very tight timetable arising from the nested budget structure seems likely to result in spending patterns which are not flexible enough to be consistently aligned with local needs and priorities. This structure also discourages implementation efficiencies and poses challenges to the sort of local “tailoring of priorities” needed for achieving many of the Sustainable Development Goals (SDGs).

### *Subnational Government Fiscal Capacities and Equity Issues*

Figure 10.5 depicts per capita *aimag* revenues from different sources. Not surprisingly, own-source revenues per capita vary greatly due to variations in local tax bases. However, there are also substantial variations in transfer revenues per capita, with a surprisingly high 14:1 ratio between maximum and minimum levels of special purpose transfers per capita, and an 8:1 ratio for LDF transfers per capita. Total revenues per capita, and hence spending capacity, vary in a ratio of 5:1.

The reasons for the variance in per capita special purpose transfers for social spending is not known. However, for the LDF, it is in part due to the allocation of mining revenues by area of mining activity, which is not uniform across all SNGs, and in part due to some anomalies in the formula used to allocate the grant component of the LDF. There is no reason why per capita spending capacity should be equal across the country, given differing needs and unit cost levels, but such a wide variance seems hard to justify and raises equity concerns in public spending.

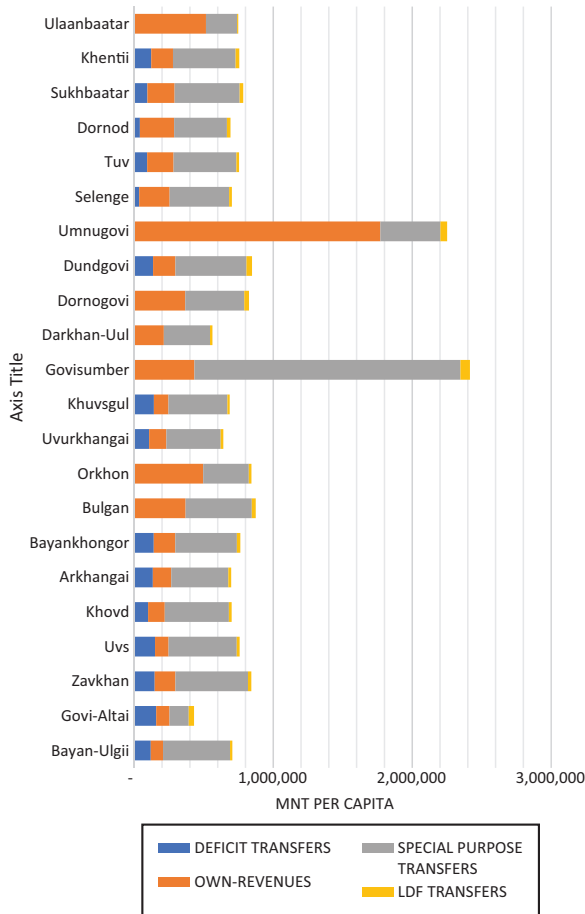


Figure 10.5 *Aimag* Revenues (MNT per capita) (2017).

Source: Authors' illustration based on budget data from Mongolia National Statistical Yearbook (2017).

Own-source revenues vary greatly among *aimags*. However, the negotiated gap filling transfers do not effectively equalize these differences. Along with anomalies in the special purpose transfers, the LDF allocations, and other transfer allocations, this results in significant disparities in SNG fiscal capacities. Given these circumstances, achieving SDG 10 on reducing inequality within countries, as well as many other SDGs, will be a challenge.

## 10.5 Political, Institutional, and Operational Framework for the 2030 Agenda and Localizing the Sustainable Development Goals

### National Adoption and Status of 2030 Agenda<sup>19</sup>

Mongolia adopted the SDG 2030 Agenda in 2015.<sup>20</sup> In 2016, the Mongolia Parliament adopted a long-term *Sustainable Development Vision 2030* (SDV), which is coordinated by a National Committee for Sustainable Development led by the prime minister (supported by the National Development Agency), and by a subcommittee of the Standing Committee on Social Policy, Education, Culture and Science of the Great State *Hural*.

According to the *Sustainable Development Report* (2020), Mongolia ranks 107th among 166 countries, with an SDG Index score of 64.0. It is reportedly on track for two SDGs, moderately improving on seven SDGs, but stagnating on four other SDGs, as summarized in Table 10.5.

The Mongolian government's own *Voluntary National Review Report* for 2019 gives a candid account of both progress and challenges. Among the many challenges, it identifies the need for greater policy coherence to allow (i) translation of longer-term goals into *shorter-term operationalizable targets* (which partly relates to the challenge of integrating medium- and long-term planning priorities into annual budget priorities), and (ii), relatedly, the translation of national goals into context-appropriate *local SDG priorities and plans*.

Clearly, while progress toward some SDGs is result of private sector and central government activity, progress toward other SDGs—especially those requiring improved local public services and local regulation of private and social activity—will depend on SNG performance. This, in turn, depends not just on local capacities, but more specifically on the mandates and other levers of public action, on the resources, and on the policy making opportunities which have been allowed to SNGs.

### *Mandates and Responsibilities: SNG Levers of Public Action for the SDGs*

In principle, SNGs in Mongolia—like local authorities everywhere—enjoy certain comparative institutional advantages in delivering public services and promoting local development in their areas of jurisdiction, and hence in localizing the SDGs. SNGs in Mongolia can play their potential role through the three broad levers of public action for which they have legal mandates:

- (i) Delivery of local public services. As highlighted above, under the Budget Law and various social sector laws, SNGs have several service delivery responsibilities critical for public wellbeing and livelihoods and therefore closely linked to the national SDG targets:

Table 10.5 Mongolia: Progress toward the Sustainable Development Goals (SDGs) (2019)

SDG	General Trend	Problem Indicators
SDG 1—Poverty	<b>Moderately improving</b>	
SDG 2—Hunger	<b>Stagnating</b>	Obesity; agricultural productivity.
SDG 3—Good health and wellbeing	<b>Moderately improving</b>	TB; age-standardized death rates; life-expectancy at birth; teenage fertility rate.
SDG 4—Quality education	<b>On track</b>	
SDG 5—Gender equality	<b>Moderately improving</b>	Female representation in <i>hurals</i> .
SDG 6—Clean water and sanitation	<b>Moderately improving</b>	Access to sanitation.
SDG 7—Affordable and clean energy	<b>Moderately improving</b>	
SDG 8—Decent work and economic growth	<b>Moderately improving</b>	Unemployment.
SDG 9—Industry, innovation and infrastructure	<b>Stagnating</b>	
SDG 10—Reduced inequalities	Information unavailable	
SDG 11—Sustainable cities and communities	<b>Stagnating</b>	Air quality; clean water access.
SDG 12—Responsible consumption and production)	Information unavailable	
SDG 13—Climate action	<b>Stagnating</b>	CO <sub>2</sub> emissions.
SDG 14—Life below water	Not applicable	
SDG 15—Life on land	<b>On track</b>	
SDG 16—Peace, justice, and strong institutions	<b>Moderately improving</b>	Night-time urban safety; corruption perceptions.

Source: Authors' compilation of data from Sachs et al. (2019).

- Mandated public spending on local services and infrastructure: education, health, water, child protection, and other social services; and infrastructure, economic services, and investments to promote local economic development.
- Administration of the various social transfers (payments to children, pensioners, military veterans, disabled persons, etc.).
- Management of civil registration such as birth, death, marriage, and residence certificates.

- (ii) Regulatory powers. Under various sector laws, SNGs enjoy several potential legal powers to regulate local socioeconomic activity key to the SDG agenda:<sup>21</sup>
  - Issuance of business permits and land use permits and rules; facilitation of legally mandated registration and access to registry documents for both citizens and businesses, through opening local “one stop service shops” and business centers.
  - Zoning of economic and land use activity to ease congestion, mitigate pollution, and promote economies of agglomeration, among others.
  - Controls over natural resource extraction and monitoring of environmental conservation and mitigation activity by mining companies.
- (iii) Convening powers. Under LATUG and various sector laws, SNGs enjoy some powers to bring together local actors to promote collective action on key local development issues. Examples include herder and farmer groups (to promote agreement on common land or pasture management issues), businesspeople (to promote agreement on joint investment in common facilities, or simply to gather collective views on future economic development policy), and mining companies and residents (to reach agreements on issues of conflict or environmental conservation).

However, as noted, SNGs are often highly constrained in their ability to exercise these mandates and responsibilities. These constraints are partly due to conventional capacity problems, but much more importantly to systemic factors:

- Public expenditure and service and investment delivery responsibilities of SNGs—though they appear substantial in terms of budgetary implications—are largely delegated in a manner allowing only very marginal SNG discretion to tailor services to local contexts and needs. In other words, SNGs have very little scope to operationalize a local SDG agenda. Only the LDF allows for real local choice and citizen input into SNG decisions around the small to medium investments which can be funded from this modest funding source.
- SNG regulatory and convening powers are generally weak, and especially inadequate regarding the challenges of urban governance. Moreover, the generic powers granted in the various legal instruments are rarely translated into practical guidelines to assist local officials, and hence are often not fully implemented in practice.

## 10.6 Perception and Involvement of Civil Society Organizations in Subnational Governance

### *Citizen Rights to Engage*

Since 1991, there has been considerable impetus in favor of citizen engagement and transparency, and a wide range of legal provisions enacted to that effect. Article 16 of the Constitution of Mongolia enshrines the rights of citizens to



participate in public affairs, both through election of *hural* representatives and through direct engagement with the state and its officials, and for free association to that end. There are reportedly around 110 legal provisions<sup>22</sup> for citizen engagement with the state and for state transparency to citizens, such as found in the following:

- The 2012 Budget Law mandates that annual planning for use of the LDF be based on an exercise whereby all households are polled for their views and priorities, and that all such proposals then be subject to discussion and vote at a *bagh/khoroo* meeting.
- The 2014 Glass Account Law mandates that SNGs undertake a wide range of disclosure, especially around the local budget and procurement processes.
- The 2015 Law on Development Policy and Planning mandates the need to secure citizen and local *hural* input to, and public discussion of, plans and policies.
- The 2017 Deliberative Polling Law aims to introduce mandatory citizen polling, not only for national constitutional amendments and major legislation but also for local planning.

Mongolia is also one of 78 countries which have subscribed to the Open Government Partnership. As part of this, it has made a series of commitments embedded in a national action plan; a number of these pertain to more open and citizen-responsive government at the local level.

Several development partners, including the U.S. Agency for International Development (USAID), The Asia Foundation, the Open Society Forum, and Mercy Corps have been very active in promoting practices for greater citizen engagement with government, and have supported town hall meetings and similar initiatives. Most SNGs in Mongolia also maintain a Facebook page that provide disclosure to citizens and a forum for citizens to pose issues or questions.

However, while a few provisions, such as the 2012 Budget Law provisions for participation in LDF planning, are well complied with, others highlighted are often much less fully implemented, often due to lack of practical guidance to local officials or to the public.

### *Civil Society Engagement*

Associations of citizens (termed interchangeably as nongovernment organizations [NGOs] or civil society organizations [CSOs] in Mongolia) are regulated primarily by the Law on NGOs (1997). The law distinguishes between organizations operating solely for the benefit of members, and those operating for public benefit, and specifies the pre-conditions for their registration (which in 2018 was switched from the Ministry of Justice to central or SNG branches of the State Inspection Agency). Duly registered NGOs/CSOs are (i) afforded independence and protection; (ii) allowed access to “information relating to activities of State

bodies, unless ... classified as ... secret”; (iii) allowed to be “involved in drafting and implementing decisions taken by legislative and executive authorities”; and (iv) may take “public positions on decisions taken by the State.”<sup>23</sup>

The number of local groups is increasing. One reason given for this increase is that as mining activities expand, community groups are forming to address the related social and environmental issues. Despite this, formally registered NGOs are still mainly urban based. They are not always fully functional.

However, there is also a strong tradition of social organization in rural areas to deal with livestock and pasture range management. Although often not formally registered as NGOs, these groups appear to press their concerns and interests upon their SNGs, for example, in the annual planning for the LDF.

### *The Mongolian Association of Local Authorities*

The Mongolian Association of Local Authorities (MALA) is the apex body for elected SNG *hurals*. It also plays an occasional role in policy consultation and advocacy, and in convening workshops and organizing training events. In practice, however, the latter are generally run by staff of the National Academy of Governance (NAOG).

MALA’s efficacy as coordinating and collective policy lobbying body for SNGs is constrained by lack of funding and staff (MALA has only an executive director and one support staff), and reportedly, but perhaps especially, by the political partisanship which permeates local *hurals* as much as it does the central government.

## **10.7 External Support by Development Partners and Coordination Mechanisms**

Although Mongolia is not a major recipient of foreign assistance, bilateral and multilateral development partners, including development banks, support a substantial range of activities including local governance, local economic development, and service delivery. Some of these interventions deal with national policy, while others build SNG capacities for governance and service and investment delivery. Still others focus on the “demand” side, supporting capacities of local civil society to engage with and to hold SNGs accountable.

### *Upstream Policy Support*

The Swiss Agency for Development and Cooperation (SDC) is the lead agency on local governance in Mongolia. Through the Decentralization Policy Support Project (DPSP), SDC provides support to the Cabinet Secretariat for policy development on decentralization and, more specifically, for the introduction of a methodology to review SNG functional assignments (which support lay behind the 2016 Government Resolution No. 350 on decentralization policy). The United Nations Development Programme (UNDP) also provides upstream support for the development of national planning systems and linkages to Agenda 2030.

Policy support to the MOF for public financial management and for center–local fiscal relations is also provided by the World Bank as part of its Sustainable Livelihood Project Phase 3 (SLP3).

### *SNG Capacity Building (“Supply”)*

Broad national support to SNGs at the *soum* level is provided by the World Bank, with SDC cofunding, through SLP3. This provides capacity support to *soums* for better overall governance and public financial management, especially around use of the LDF, and introduces a performance-based funding mechanism attached to the LDF grants to *soums*, together with general policy support to the MOF around fiscal transfers. National support specifically for elected *hurals* at both *soum* and *aimag* levels is provided by UNDP through The Citizen Representative Rural Project (CRHP) Phase 2, again with SDC cofunding (UNDP and SDC 2018).

The Asian Development Bank (ADB)<sup>24</sup> has provided a range of direct investment support and local capacity building, mainly in urban areas, through projects supporting (i) peri-urban socioeconomic infrastructure development, especially in the low income “*ger*” areas around Ulaan Baatar (with later support planned for improved public transport to and within these areas); (ii) *aimag* and *soum* centers regional development investment; and (iii) solid waste management in secondary cities. The World Bank has also given capacity support to MUB for urban service delivery and public financial management. Support for urban governance, planning, and urban service delivery in MUB and secondary cities is also provided by SDC and The Asia Foundation.

A range of other initiatives also aim to support local capacities in different ways, including: the various sectoral (health, education, agriculture, etc.) support projects of ADB, the World Bank, the United Nations Children’s Fund (UNICEF), and the Food and Agriculture Organization (FAO); SDCs’ longstanding Green Gold initiative in support of local pasture management; energy efficiency initiatives supported by SDC and *Deutsche Gesellschaft für Internationale Zusammenarbeit* (GIZ); and local economic development and livelihood support initiatives supported by MercyCorps.

### *Civic Engagement (“Demand”)*

Support for the “demand” side of local governance is provided through several initiatives.

The World Bank’s Mainstreaming Social Accountability in Mongolia (MASAM), with SDC cofunding, promotes greater transparency and citizen engagement for services delivered by selected ministries and SNGs.

The Open Society Foundation (Mongolia) conducts a biannual survey on SNG transparency in all *aimags* and in Ulaan Baatar. It supports about 20 NGOs in a few *aimags* to monitor transparency of public spending and the implementation of the Glass Account Law, and to hold public hearings on the results. In the same vein, The Economic Policy & Competitiveness Research Center (EPCRC), with support from The Asia Foundation and GIZ, conducts an annual survey in all *aimags* and in

Ulaan Baatar to track indicators of development, governance, and competitiveness, and to promote civic engagement and debate around issues of local governance.<sup>25</sup>

Currently, while there is a formal coordination committee for general governance support, there is no formalized mechanism to coordinate development partner support specifically for SNGs and local governance.

## 10.8 Current Challenges for Subnational Governments in Mongolia

SNGs face a number of constraints in playing their potential roles, as outlined above.<sup>26</sup> It is common to ascribe these to “local capacity weaknesses,” but this generic diagnosis can be very misleading. By international standards, SNGs in Mongolia have substantial and competent human resources. While they do certainly face human capacity challenges, the primary constraints that SNGs face are more often more embedded in the systems and procedures within which they must operate.

### *General Constraints*

- The policy, legal, and regulatory framework is sometimes internally inconsistent, sometimes transmits perverse incentives, often allows little local discretion, and generally is not translated into clear operational guidance for SNGs.
- The local institutional setup tends to duplicate functions and blur accountabilities, leaving little real role for local elected *hurals*. This promotes a vicious cycle which compromises the potentially critical political and developmental role of the *hural* and prevents both the *hural* and the governor from exercising effective coordination or supervision over local deconcentrated staff.
- The financing and budgeting arrangements impose a tight straitjacket which precludes the sort of local discretion that is the very rationale for decentralization. It undercuts the scope for input, supervision, or coordination over local sector departments by local authorities, but in other cases allows too much discretion which may encourage non-transparent behavior (for example, in *aimag* budgetary allocations to *soums*).

### *Local Spending and Service Delivery Constraints*

- Local needs and priorities vary substantially across the country but SNGs are allowed very little scope to tailor service delivery spending to their different contexts. This is because many responsibilities still fall under the central government, and even those that are formally decentralized are subject to a centralized and rigid budget decision-making process, with little guidance on translating policy into spending.
- Spending and service delivery are less equitable across SNG areas than they could be because of the great variance in resources per capita allocated between *soums* and *aimags*. They are also less efficient in translating resources into service outputs than they could be because of the budget rigidities noted

above, the weak guidance and incentives surrounding the budget process, and the problems in treasury and procurement. Spending and service delivery are also less accountable than they could be because of the ambiguities and overlaps in local institutional oversight roles.

### *Constraints on Use of Regulatory and Convening Powers*

The potential use of legally mandated powers is compromised by the fact that the laws or regulations underlying these powers are not always consistent or appropriate (for example, in the land use framework) and by the frequent lack of clear guidance on their operational application. Here too, accountability is compromised by unclear and overlapping local institutional oversight roles.

### *The COVID-19 Pandemic Response in Mongolia*

The Mongolian government, which had been very successful in controlling the pandemic until an outbreak of cases in late 2020, introduced a number of fiscal and other policy measures from the outset to mitigate the impact of the pandemic—notably through increases in child allowance and unemployment benefit transfers. Although financing these transfers are central government functions, SNGs play a key role in identifying target recipients and administering payments through local treasuries.

SNGs also play a key role in COVID-19 mitigation by funding various sorts of minor investments (in personal protective equipment, WASH facilities, etc.) from their LDF transfers, outlined further above. However, shortfalls in central government revenues in 2020 due to the pandemic, as compared to budget forecasts, have meant that the LDF transfers to SNGs—which had begun to increase again after 2018—have been substantially cut back.

*Aimag* governors also have powers to establish and monitor area-specific pandemic response curfews, travel, social and business restrictions, and lockdowns, which have been put into place by MUB and by several *aimags*.

## **Glossary of Mongolian Terms**

<i>Mongolian Term</i>	<i>English Meaning</i>
<i>Aimag</i>	Province (1st tier of subnational government)
<i>Dzud</i>	Periodic weather sequence of severe drought and extreme cold affecting livestock and rural livelihoods
<i>Bagh</i>	Rural ward
<i>Hural</i>	Elected assembly
<i>Khoroo</i>	Urban ward
<i>Soum</i>	District (2nd tier of subnational government)
<i>Grand State Hural</i>	National parliament

## Notes

- 1 The 2020 revision to LATUG made several changes to the earlier 2006 version, detailing more clearly the local institutional framework and the respective roles and responsibilities of governors and *hurals*.
- 2 A Glossary of Mongolian terms is provided at the end of this chapter.
- 3 The CIS groups countries in Central Asia which formerly were part of the Union of Socialist Soviet Republics (USSR).
- 4 See also Lkhagvadorj (2012), World Bank (2015) and (2018), and ADB (2021a).
- 5 See Lkhagvadorj (2012), World Bank (2015) (2017) and (2018), and ADB (2021a).
- 6 From author's interview with local officials.
- 7 See UNDP (2013).
- 8 More details on SNG financing in Mongolia can be found in Lkhagvadorj (2010) and (2015), ADB (2015), World Bank (2018), and ADB (2021a).
- 9 Local revenues and financial management issues for MUB are discussed in World Bank (2013).
- 10 For further discussion of such arrangements in general and in selected countries see Bird, Ebel and Wallich, ed. (1995), Dabla-Norris, Martinez-Vazquez. and Norregaard (2000), Martinez-Vazquez and Boex (2000), Martinez-Vazquez, Gomez, and Yao (2006), and World Bank (2006).
- 11 See Chapter 2 on Fiscal Decentralization.
- 12 For more details of intergovernmental fiscal relations and the related challenges in CIS and transition countries see Bird et al (1995), Martinez-Vasquez and Boex (2000), Dabla-Norris, Martinez-Vazquez, and Norregaard (2000), and World Bank (2006).
- 13 The opportunities and capacity and institutional issues raised by this provision are outlined in World Bank (2014). However, it appears that the avenue for loan financing is now closed, for the time being.
- 14 For more details of this history, see Steiner-Khamsi and Stolpe (2004) and Lkhagvadorj (2010).
- 15 A very useful annual review of socioeconomic development trends and performances in the 21 aimags and Ulaan Baatar is published by Economic Policy and Competitive Research Centre.
- 16 2017 budget data for Bayantal Soum in Govi-Sumber Aimag. See ADB (2021a).
- 17 For example, see World Bank (2015), World Bank (2017), and World Bank (2018).
- 18 See ADB (2021a).
- 19 For details, see UNESCAP (2018), Government of Mongolia (2019), Sachs et al. (2019).
- 20 UNESCAP (2018) claimed that Mongolia is a "frontrunner" in its policy and legal commitments to the SDG agenda.
- 21 See ADB (2021a), and World Bank (2010) and (2013).
- 22 See ADB (2019) for more details.
- 23 See ADB (2019) *ibid*.
- 24 See ADB 2021b:28 for more details on SDG related support of ADB in Mongolia.
- 25 See <https://ecrc.mn/about-research/> for details.
- 26 See also ADB (2021a).

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# 11 Decentralization, Local Governance, and Localizing the Sustainable Development Goals in Nepal

*Rainer Rohdewohld*

## 11.1 Constitutional and Legal Framework for Subnational Governments and Their Core Functions

Loose forms of local governments (called *panchayats*) were established in Nepal in the 1960s, based on the 1962 Village and Town Panchayat Act and the 1966 Local Administration Act. During the 1980s, further legal and institutional initiatives supported decentralization as a strategy for achieving “balanced development and intersectoral integration” (Bienen et al. 1990). However, it was only after local government elections in 1992 and 1998 and the passing of the Local Self-Governance Act (LSGA) in 1999 that local governments became a firm fixture of Nepal’s political and administrative system. The LSGA came a few years after the Local Government Code of the Philippines (1991), in the same year as the now defunct local government act of Thailand (1999) and shortly before the Big Bang decentralization of Indonesia (1999/2000). It was part of an emerging movement toward more decentralized governance systems in Asia. However, the Maoist insurgency which started around the mid-1990s increasingly affected the functionality of the local system, as party representatives and elected officials became major targets of the insurgents. Holding fresh elections became impossible, and when the tenure of the elected representatives ended in 2002, state-appointed administrators took over the management of the local bodies. As pointed out by The Asia Foundation:

A political vacuum prevailed for more than 15 years and the violent conflict seriously affected the local governance system resulting in the withdrawal of most of the government institutions, including the staff of VDCs, health centres and banks from the remote rural areas, with re-location to district headquarters or relatively safer urban centres.

(TAF 2017:2)

This legacy largely explains the huge capacity building needs for the local officials elected in 2017.

The **Constitution of Nepal 2015** created a federal structure and brought a successful conclusion to the political settlement with former Maoist rebels, which had begun with the signing of the Comprehensive Peace Agreement (CPA) of November 2006. Following an extended debate about criteria and parameters for the creation of the future federal units, the new Constitution restructured Nepal into seven federal provinces (sometimes also called “states”) that are “delineated according to physical geographical characteristics and on the basis of existing administrative divisions” (Strasheim & Bogati 2016:2).<sup>1</sup> It established three main political and administrative levels: federal, provincial, and local. The local level is defined as Village Council, Municipal Council and District Assembly (Art. 56.4). In addition, there are administrative and service delivery units called “wards” under the village and municipal councils as provided for in a federal law.<sup>2</sup> Representative bodies at the village and municipal levels are elected directly, whereas the district assemblies consist of the mayors or chairs of the villages and municipalities. The 2015 Constitution gave local governments constitutional protection and expanded their mandate considerably by adding legislative and judicial functions. Looking at the three modalities of decentralization (as discussed in the Introduction), the 2015 Constitution prioritizes devolution; the deconcentration and delegation modalities can be applied to responsibilities left with the central government (ADB 2018:32).

Functional responsibilities<sup>3</sup> of each level are defined in several schedules of the Constitution. Each level of government has *exclusive powers* as listed in Schedule 5 (federal level), Schedule 6 (provincial level), and Schedule 8 (local level). At the same time, there are *concurrent powers* between the federal and the provincial levels (Schedule 7) and among all three levels (Schedule 9) (see Box 11.1). The latter is an unusual arrangement as concurrent functions in federal states are normally between the national level and the federating units but do not involve the local level. *Residual powers* are given only to the federal level (Art. 58). Unlike the other federal states in South Asia, such as India and Pakistan, jurisdiction for local government affairs in Nepal remains a federal subject (see Schedule 5 item 13); in other words, there is only one local government act for the whole of the country. The 2015 Constitution emphasizes that the intergovernmental relations must be based on the principles of “cooperative, coexistence and coordination” (Art. 232.1). As formulated in a government report:

The constitution envisages a non-hierarchic relationship of the three levels of government ... the federalism envisaged by the constitution treats the three levels of governments as autonomous whole governments (exclusive functions), interdependent upon each other through shared “Rules” (concurrent functions).

(GON 2019:4)

**BOX 11.1 CONCURRENT POWERS OF FEDERAL, PROVINCIAL,  
AND LOCAL GOVERNMENTS ACCORDING TO  
SCHEDULE 9 OF THE 2015 CONSTITUTION OF NEPAL**

- Cooperatives.
- Education, health, and newspapers/magazines.
- Health.
- Agriculture.
- Services like electricity, drinking water, and irrigation.
- Service fees, registration fees, fines, tourism fees, and royalties received from natural resources.
- Forest, wildlife, birds, water use, environment, ecology, and biodiversity.
- Mines and minerals.
- Disaster management.
- Social security and poverty alleviation.
- Registration of personal incidents, births, deaths, marriages, and statistics.
- Archaeology, ancient monuments, and museums.
- Management of landless.
- Royalties received from natural resources.
- Permission for vehicles.

Powers and jurisdiction of the local level as listed in Schedule 8 include, for instance, municipal police; agriculture and animal husbandry; the management of local services; the collection of local statistics and records; local level development plans; water supply; basic and secondary education; basic health and sanitation; disaster management; local market management; environment protection and biodiversity; the protection and development of languages, cultures, and fine arts; and infrastructure-related functions (e.g., local roads, small hydropower projects). Mediation and arbitration are local functions as well (ADB 2018:41). The Constitution does not indicate how such functions are to be assigned among the village, municipal, and district levels of local government. The wards are intended to be the basic service delivery units or service centers of the local governments where all local government services (vital registration, certification, collection of fees and revenues, etc.) should be made available. Wards should also manage local health facilities, provide agriculture services, and monitor schools, among others.

While the Constitution differentiates between exclusive, concurrent, and residual powers, it does not use the notion of obligatory versus discretionary functions. Article 56.5 provides potential options for asymmetric decentralization as it allows, by federal law, the creation of “special, protected and autonomous regions” for “socio-cultural protection or economic development.”<sup>4</sup>

In February 2017, the Federalism Implementation and Administration Restructuring Coordination Committee published its report on the *Unbundling/*

*Detailing of List of Exclusive and Concurrent Powers* (GON 2017a). The report listed more than 1,500 activities or clusters of activities and the levels (federal, provincial, or local) that would be responsible for them. This unbundling exercise was essential to operationalize the list of concurrent functions included in the Constitution.

In 2017, the federal Parliament passed the Local Governance Act, 2074<sup>5</sup> which includes a detailed listing of local government functions based on Schedule 8 of the Constitution regarding local powers and jurisdiction, and on the concurrent functions as per Schedule 9 of the Constitution. Chapter 3 of the act outlines in detail the functions, duties, and rights of local governments. Clause 11.6 of the law also provides the option to the federal and provincial levels to delegate functions from their own jurisdiction to municipalities.

Nepal has made substantial use of the emerging practices on intergovernmental functional assignments in Asia. However, observers agree that the resulting assignment of powers and functions among the three levels require further modification and fine-tuning, especially as far as sector arrangements are concerned. The 2019 report on the *Capacity Needs Assessment for the Transition to Federalism* recommended that the “assignment of expenditure responsibilities to provincial and local governments should be revisited and made clearer in terms of which level of government should have responsibilities for which functions.” The report furthermore recommended the reduction of concurrent functions, and the elimination of functions which are included in more than one exclusive list (World Bank/UNDP 2019:xiii). A report by The Asia Foundation in 2020 similarly noted that “there are inconsistencies, overlaps, gaps, lacunae, and challenges in executing the functions and responsibilities entrusted to the different levels of government” (TAF 2020:3). Shrestha (2021:11) notes “a lack of lack of strategies and guidelines for the devolution of sectoral functions to subnational governments” and “a lack of clarity in functional assignments and in levels of authority among government tiers” as hurdles in the transition to the federal system.

Other relevant federal acts influence and shape the political, administrative, and fiscal space of subnational governments (SNGs). These include the federal acts on the elections and the Election Commission, the Intergovernmental Fiscal Arrangements Act of 2017, the act establishing the National Natural Resource and Fiscal Commission (NNRFC) of 2017 (see below), the Staff Adjustment Act of 2017, and the Public Service Commission Standards Act of 2018 (TAF 2017:16). More recent framework legislation includes the Financial Procedures and Fiscal Accountability Act (2019) and the Federation, Province and Local Level (Coordination and Interrelation) Act (2020).

While Nepal’s federal system is not yet fully implemented, significant progress has been made. Many of the necessary framework laws are in place and the institutional reforms (such as devolving the federal public administration to the provincial and local levels) has progressed considerably. Provincial and local elections took place in 2017, and the councils at each level have started

functioning. The capacity needs assessment conducted in 2019 showed that 96% of local governments have regulated assembly operations, and that assembly meetings are well attended and properly prepared (GON/World Bank/UNDP 2019:2). A system for intergovernmental fiscal transfers has been established and is being applied. While the devolution of staff to the provincial and local government levels is ongoing (GON 2019), the delay in approving federal and provincial civil service acts as basis for local civil service regulations complicates the process.

However, provincial and local governments are still at a very early stage of learning how to manage and deliver public services. There is—and will be for a considerable time—a tremendous need for information sharing and awareness raising on the new structures and processes, and for capacity development of officials and elected representatives at both national and subnational levels. The delineation of functions and service responsibilities across the levels of government needs to be developed further in line with emerging experiences. Learning and communication loops need to be established to enable the new system to mature and become efficient. The government's own assessment in early 2019 pointed out that while

the functions and resources have been provided to the local governments, this has not been matched by adequate deployment and mobilization of management-level sector functionaries from the district level to the municipalities to perform the transferred functions ... Organograms for local level governments, as well as lines of communication and coordination between sectors, are still not fully evolved to make them capable to handle these development sectors. It may take some time for sector top-down accountability structures to devolve fully and stabilize at local government levels.

(GON 2019:11)

The Government of Nepal seems to be aware of the need to continuously improve and adjust the legal and fiscal framework for the subnational level, as the Finance Minister's Budget Speech for the FY 2020/2021 announced amendment bills related to the Inter-Governmental Fiscal Arrangement Act and the Local Government Operation Act (GON/MOF 2020). Although federal laws have been amended (for instance, in the health services, forests, and environment protection sectors, among others) (TAF 2020:9), there is a need to redraft and update other relevant sector legislation in line with the new federal arrangements (see Thapa et al. 2019 for the health sector). Not surprisingly, the 2019 needs assessment report—coming approximately four years after the enactment of the 2015 Constitution—summarized an extensive number of areas requiring further action. These range from legal reform, strengthening national institutions (such as the NNRFC), extensive capacity development efforts, and improving public financial management system to gender equity, minority inclusion, and an effective monitoring and evaluation system (World Bank/UNDP 2019).

## 11.2 Basic Data on Subnational Governments

The subnational level in Nepal consists of the seven provinces and the local governments as defined in Article 56.4 of the Constitution. The provinces as federating units are an entirely new element of the state structure; their functionality and performance will have repercussions on the local government units in each province. A total of 753 local governments were established in Nepal;<sup>6</sup> these have been categorized as “municipalities” ( $n = 276$ ), “rural municipalities” ( $n = 460$ ), “metropolitan cities” ( $n = 6$ ), and “sub-metropolitan cities” ( $n = 11$ ) (GON 2019). These new local governments are larger than the previous local governments and have been assigned a higher level of responsibilities (TAF 2017:1). There are also 6,742 wards below these local governments. In addition, 77 districts have been created. Each of these has a district assembly consisting of the mayors, deputy mayors, chairpersons, and vice chairpersons; the district assembly elects a district coordination committee (DCC) as an executive branch at the district level. While the district level is mentioned as part of the local level in the Constitution and in the 2017 Local Governance Act, its character as “local government” is disputed by some as districts do not have their own separate plans and budgets, do not have a legislative function, and do not implement any projects or programs. Their role has been defined as monitoring and coordination. For example, DCC officials have the responsibility to conduct audits, settle arrears, keep records of movable and immovable assets in the district, and monitor the preparation and implementation of procurement plans. They also have roles in capacity development, but this role is hardly exercised so far. The process of merging a deconcentrated federal administration into devolved administration at the provincial and local levels has advanced significantly but is still ongoing.

In 2017, local elections were conducted in three phases. Along with 753 mayors or chairs and their deputies, a total of 6,742 ward chairs and 26,790 ward members were elected. Out of the 35,041 seats, 59.1% were taken by men, and 40.9% by women. Each village or municipal council can appoint about five members from the marginalized and disadvantaged groups such as the Dalits and ethnic minorities. The legal requirement to have a gender balance for the positions of mayor or chair and deputy mayor or deputy chair was clearly tilted in favor of men capturing the lead position: of the 753 mayor/chair positions only 2% went to women, and of the 753 deputy mayor/deputy chair positions, 91% went to women. At the ward level, women won only 1% of the ward chairs.<sup>7</sup> A survey conducted by The Asia Foundation found that, contrary to common perception, the educational background of women councilors is fairly good: only 12% of the surveyed women were illiterate, while another 22% could do basic reading and writing. The majority had basic education, with a high percentage having undergone secondary education (TAF, n.d.).

As part of the transition to federalism, a huge transfer of civil servants from the federal level to the subnational level became necessary. According to government data, there had been about 80,000 civil servants employed by the central government and about 20,000 posted at the local level (of which only 15.3%

were women). An estimated 21,000 federal civil servants were to be deployed at the provincial levels, and about 37,000 at the local levels. As of early 2019, a total of 28,000 federal civil servants had been redeployed (GON 2019). The wage and salary of those reassigned will be paid by their respective governments, but their pension and other non-wage benefits will continue to be paid at the federal level. Public service commissions are now being formed in each province, and the federal civil service legislation that empowers each provincial commission to recruit and hire is being formulated. The existence of such federal legislation is the precondition for subsequent legislation at the other levels of government.

These changes will give rise to significant capacity development needs at all levels. Provincial and local government employees will need skills training to better manage and deliver services, and to become familiar with SNG operations and a new work environment. Beyond this, Nepal has had little or no experience with local governments' role in crucial sector services such as health, education, environmental management, and agriculture. It is also the first time in Nepal's history that local governments can make their own legislation. These changes require training and technical assistance to assess and modify regional and local policies, including training for elected leaders to comprehend fully the range of rights and obligations assigned to the local level.

According to the Organisation for Economic Co-operations and Development (OECD), local spending in FY 2013/2014 accounted for approximately 8% of total public spending. In line with the reassignment of functions since 2015, it has been estimated that at least 20% of public expenditure should take place at the subnational level, with a particular focus on education, housing, community affairs, and health (OECD/UCLG 2019).

Between FY 2012/2013 and FY 2015/2016 (prior to the new constitutional and legal framework), own-source revenue represented between 18% and 20% of the total income of local bodies, with the rest being grants from the federal level (ADB 2018:95). In FY 2018/2019, 36.5% of the federal budget was allocated to the provincial and local governments in the form of fiscal equalization or conditional grants (GON 2019:9f).

Nine taxes have been assigned to the SNGs: agro-income tax, vehicle tax, property tax, house rent tax, business tax, land tax, advertisement tax, entertainment tax, and house and land registration fees. Some of these are exclusive to the provinces (e.g., vehicle tax and agricultural income tax), some are exclusive to the local level (e.g., property tax and house rent tax), while others are under the common jurisdiction of the provincial and local levels (such as the house and land registration fees, entertainment tax, and advertisement tax) (ADB 2018:15).

The 2020/2021 budget envisaged equalization grants of NRs 55.19 billion, and conditional grants of NRs 36.5 billion for the provincial level. The local level was to receive NRs 90.05 billion as equalization grants, and NRs 161.08 billion as conditional grants. A total of NRs 122.14 billion was to be disbursed as revenue sharing based on population, area, human development indicators, and other development deficit indicators at the provincial and local levels. The



budget set aside NRs 9.96 billion as matching grants for projects identified and proposed for execution by the provincial and local levels, and another NRs 9.97 billion for providing special grants to the provincial and local levels for carrying out projects of specific nature (GON/MOF 2020). The emerging fiscal decentralization system needs to address the visible horizontal and vertical imbalances between the subnational entities caused by the mismatch between expenditure assignments and revenue assignments, and by the diversity of the subnational units in terms of size, population, resource base, and level of development (ADB 2018).

### **11.3 Central Government Institutions and National Policies and Strategies for Subnational Governments**

The Ministry of Federal Affairs and General Administration (MOFAGA) is responsible for leading much of the implementation of the federal arrangement. It also handles local government affairs: under the Secretary (Federal Affairs), there is a Local Government Coordination Section and a Division of Local Government Capacity Development. The ministry is the institutional anchor for the multi-donor Provincial and Local Government Support Program (PLGSP) (see below). Jointly with the provincial governments, it is mandated to lead SNG staff training activities, and as such is the oversight institution for the Local Government Training Academy.

The Ministry of Urban Development is an important agency for the urban local governments. Its structure includes the Department of Urban Development and Building Construction whose mandate covers the formulation, planning, and implementation of urban policies, and of housing plans and policies. The Ministry of Urban Development is also the oversight body for other national agencies, such as the Kathmandu Valley Development Authority and the Town Development Fund (TDF). The TDF is an autonomous financing institution established by the Government of Nepal in 1989 with the long-term institutional objective of becoming a self-sustaining and complementary part of the intergovernmental fiscal transfer system. The TDF is the only autonomous financial intermediary institution in the country presently providing debt financing to local governments.<sup>8</sup> It has been suggested that TDF be made an autonomous and independent organization under the umbrella of the Ministry of Finance (MOF) with a greater capacity to engage in a wide range of economic development activities rather than act on the strength of borrowing and grants from the federal government. This would require strengthening of the TDF's human resources and its institutional capacity for conducting project appraisals and financial system analysis (ADB 2018).

The MOF is responsible for deciding on the allocation of intergovernmental transfers to SNGs, based on recommendations provided by the new National Natural Resource and Fiscal Commission (NNRFC). The Ministry of Law and Justice is preparing framework legislation for federalism; it also provides technical assistance to SNGs for legal drafting. The Financial Comptroller General Office



(FCGO) is another important institution for collecting and reviewing financial data, including those of SNGs.

The NNRFC is a crucial body for the functionality of Nepal's subnational government system. It has legal responsibility to decide on the allocation of most intergovernmental transfers among SNGs. According to Article 251 of the 2015 Constitution, the mandate of the NNRFC includes:

- Making recommendations on the distribution of the equalization grants to provincial and local governments from the federal consolidated fund.
- Conducting research and studies to make a basis for distribution of conditional grants to provincial and local governments in compliance with national policy, programs, and standards.
- Determining extensive grounds and measures for the distribution of revenue between provincial and local governments from the provincial consolidated fund.
- Making recommendations regarding the measures of reforms on responsibilities of expenditures and revenue generation for the federal, provincial, and local governments.
- Making recommendations about the internal loans the federal, provincial, and local governments may take.
- Reviewing the bases of revenue distribution between the federal and provincial governments and making recommendations for reform.

While there is no mandatory representation of provincial or local governments in the NNRFC, or of their associations, such representation has been recommended “to ensure that the needs of the subnational governments are duly considered by the commission” (ADB 2018:157).

Other national-level bodies and commissions, such as the Commission on Audit, the National Women Commission, and the Central Bureau of Statistics (CBS) will have an impact on the working of the SNGs due to their crosscutting mandates.

The political and legal strategies for subnational governance are outlined in the Constitution and in the 2017 Local Governance Act. In terms of operationalization, the Provincial and Local Governance Support Programme (PLGSP)<sup>9</sup> is the main vehicle for harmonizing and aligning government efforts with the support of external development partners. The PLGSP covers all seven provinces and 753 local governments. Development partners provide a total budget contribution of USD 100 million in the form of financial and technical support, while the government contributes the remaining USD 30 million. The program targets all three levels of Nepal's state structure, keeping in mind their interdependence. Expected outputs of the five-year program deal with, for example, federal legislation, policies and tools to support provincial and local governments, modernized public financial management (PFM) systems at the local level, the mainstreaming of gender equality and social inclusion (GESI) on local service delivery, and

capacity development for elected representatives and civil servants at the provincial and local level.

Currently, any strategies and policies for SNGs in Nepal must be clearly linked to the overall transition to a federal system. Here, the capacity needs assessment of 2019 has recommended the development of a sequential action plan or “road map” with a well-defined and realistic timeline which will be followed and implemented by all relevant stakeholders at all three levels of the new federal system (World Bank/UNDP 2019:154ff).

#### **11.4 Interdepartmental/Intergovernmental Coordination Mechanisms Relevant for Subnational Governments**

The 2015 Constitution calls for the empowerment of an Inter-Provincial Council (IPC) charged with settling disputes of a political nature between the federation and the provinces, and among the provinces. The membership includes the prime minister, the ministers for home affairs and finance, and the chief ministers of the provinces.

Article 235 of the Constitution also addresses coordination among the federal, provincial, and local levels. It authorizes the federal Parliament to pass laws as necessary to maintain coordination. Provincial assemblies are to coordinate with district coordination committees of each province to establish coordination between the province and the village councils or municipalities, and to settle any disputes of a political nature. According to Clause 117 of the 2017 Local Governance Act, the local level “should liaise with the provincial government through the Ministry of the Province that oversees local affairs.”

The governance structure of the PLGSP includes a variety of bodies (such as a National Steering Committee, a National Executive Committee, and a Technical Assistance Sub-Committee) with representation from a wide range of national institutions (including the National Planning Commission and sector ministries) but also from the subnational level. It also makes provision for provincial-level coordination committees (GON 2019:61ff).

#### **11.5 Performance of Subnational Governments**

Five years after the 2017 local elections, it is still too early to make a robust assessment of the performance of SNGs after the transition to a federal system. The present level of performance is clearly influenced by the enormous challenges of transitioning to a new multi-level governance system, the lack of substantial previous experiences with service delivery at the local level, and the long absence of elected local representatives. The local government system established with the Local Self-Government Act of 1999 was short lived because of growing insurgency in parts of the country; there were no elected authorities after 2002, and local governments were headed by state-appointed officials.

A 2009 assessment of local government performances had already noted that out of more than 20 defined sectors, only three—education, infrastructure, and

health—had been decentralized, and that the municipalities were struggling to cope with the assigned responsibilities for those three sectors as they lacked qualified technical staff and had no access to effective capacity building interventions (Taraschewski 2009). Overall, Nepal has limited experience with local governments overseeing service delivery, with the need to delineate roles and mandates of different actors, with intergovernmental cooperation across levels of government, and with how citizens can use the local system to foster their interests. Elected representatives at the different tiers of the new local system have no access to past experiences from which they can learn. They have yet to settle into their new roles.

The situational analysis of the PLGSP observed that while “financial resources for sector programmes such as education, health, agriculture, livestock, and a variety of infrastructures including rural roads and irrigation have ... been provided to local governments” the new local functions “such as in education, health and other development sectors have not been effectively handed over to the local governments ... This has created considerable confusion with respect to service delivery” (GON 2019:11). Major challenges include the institutional transformation (alignment of sector ministries and establishment of sector agencies at local level), harmonization of sector legislation in line with the new Constitution, and establishment of effective lines of communication and coordination among sectors. For instance, for the health sector, it has been observed that the health structure at local level is not endorsed yet. Health services that previously were delivered through district offices are now to be delivered through new structures at subnational level, but health personnel at this level are lacking management and procurement skills. Substantial capacity building is therefore seen as a crucial factor in making the new multi-level arrangement perform its sector functions (Thapa et al. 2019).

Nepal has long been active in gender-responsive budget practices. In 2012 the Ministry of Finance issued guidelines requiring all ministries to classify budgets so that gender responsiveness could be tracked. Every year the total budget request from each ministry includes details on programs classified as “directly responsive” (indicating that more than 50% of the allocation directly benefits women), “indirectly responsive” (indicating that 20%–50% of the budget allocation benefits women), and “neutral” (indicating that less than 20% benefits women). The 2020/2021 budget speech indicated that 38.2% of the budget was directly gender-responsive, 35.1% indirectly, and 26.7% was regarded as neutral (GON/ MOF 2020:32). The speech also stated that gender-responsive “budget systems will also be introduced in the Provincial and Local levels” (ibid.:42). A recent assessment of gender-responsive budgeting at the local level indicated that the lack of gender analysis before planning and allocating gender budgets results in ad hoc systems and reduces the effectiveness of the approach (Rajkarnikar 2019).

Under the pre-2015 system, Nepal had been using a performance-based grants system (called Minimum Conditions and Performance Measures [MCPM]) since 2000. The minimum conditions were concerned with compliance issues such as approval of an annual budget, conducting an annual progress appraisal,

conducting audits regularly, and having asset inventories. The performance measures attempted to measure the level of achieving tasks and results in key performance areas. Municipalities could receive additional performance grants based on the results of an annual assessment by independent evaluators; there was also a provision for financial rewards to local government officials (Taraschewski & Wegener 2011). In the context of the PLGSP, a new assessment methodology called the Local Government Institutional Self-Assessment (LISA) has been developed, comprising seven dimensions of assessment.<sup>10</sup> Following pilot testing in 17 local governments in 2020, the national roll-out started in 2021 (GON 2020b:14f).

### 11.6 Political, Institutional, and Operational Framework for the 2030 Agenda and for Localizing the Sustainable Development Goals in Nepal

Nepal integrated the Sustainable Development Goals (SDGs) into its 14th (2016/2017–2018/2019) and 15th (2019/2020–2023/2024) Periodic Plan. The *Sustainable Development Goals: Status and Roadmap 2016–2030* (GON 2017b) serves as an overall framework. Other key policy documents include an *SDG Baseline Report* (2017), two voluntary national reviews (VNRs) (2017 and 2020) (GON 2017c, 2020a), and an *SDG Needs Assessment, Costing and Financing Strategy* (2017). Sector agencies are already prioritizing their budget proposals and programs according to the SDG targets. By classifying programs and projects, the country is increasingly able to track its budget expenditures by the SDGs supported. The *2020 Sustainable Development Report* ranks Nepal at 96th out of 166 countries, with an index score of 65.9. Of the 17 SDGs, six are rated as moderately improving, while four are rated as being on track or as maintaining achievement. Four SDGs are rated as stagnant, and there is no information on three SDGs (Sachs et al. 2020:346).

Institutional arrangements include a national SDG Steering Committee, chaired by the prime minister, and a SDGs Coordination and Implementation Committee under the National Planning Commission. CSOs, the private sector, and development partners participate in nine SDG Implementation and Monitoring Thematic Committees (UCLG 2019). The 2018 assessment of the enabling institutional environments for local governments to support sustainable development (Cities Enabling Environment, or CEE Assessment) ranked Nepal rather low, mainly because local elections had taken place only in 2017 and the capacity of local governments was still regarded as weak (ibid.). However, since Oct. 2019, the three existing local government associations are all represented in the key SNG committees, namely, the SDG Steering Committee, the SDG Implementation and Monitoring Committee, and in the SDG Thematic Committees (Adhikary 2020). The preparation of the 2020 VNR was done in a more systematic and inclusive manner, involving the local government associations, the private sector, and civil society (ibid.).

The *Sustainable Development Goals: Status and Roadmap 2016–2030* recognizes that the transition to the new federal and local system has shifted “much of the burden of SDG implementation ... towards subnational governments” since

vital public services, which form a social core of the SDGs, are now the responsibility of the province and local levels, such as basic and secondary education, primary health care, water supply and sanitation, agriculture, basic infrastructure, and social security.

(GON 2017b:13)

There is a clear national commitment to the 2030 Agenda and the use of the SDGs as the basis for planning and budgeting at the national level is widespread. However, the reallocation of powers and functions to the provincial and local level limits the options for the national level to enforce compliance with nationally decided SDG targets, and to align subnational planning and budgeting from above. The 2017 VNR had pointed out the challenge of cascading “national efforts to subnational levels and mainstreaming the SDGs agenda into the provincial and local level planning and budgeting as these new levels of government are in the formation process” (GON 2017c:iv). The VNR also stated that the new district coordination committees (DCCs) will lead the coordination for achieving the SDGs at the local level and “will coordinate with the private sector, civil society organisations, development partners, cooperatives and other nongovernment stakeholders” (ibid.:24). The 2020 VNR indicated that the National Planning Commission had prepared an *SDG Localization Resource Book* to assist the subnational level in its SDG agendas. The report furthermore points to the need for capacity building, effective integration and implementation of programs, and more disaggregation of data (GON 2020a).

Many of the SDGs are obviously related to powers and functions that the Constitution and further legislations have assigned to the local and the provincial level. This includes basic and secondary education, primary health care,<sup>11</sup> water and sanitation, agriculture, and social security (Adhikary 2020). The fiscal decentralization framework makes significant transfers from the federal level to the provincial level, reaching approximately 34% of the national expenditure in FY 2018/2019 (GON/World Bank/UNDP 2019). This means that Nepal cannot achieve any of its SDG targets without substantial involvement of and contribution by the subnational level; federalism in Nepal and localizing the SDGs are intrinsically linked. The localizing agenda is more advanced at the provincial level; for example, it is reported that most of the provincial governments have completed or almost completed the formulation of SDG-based provincial development plans (Adhikary 2020:18). However, the local level is lagging. SDG committees are to be established at both levels. The National Planning Commission is intensifying its efforts to raise awareness for subnational officials, and to provide training and facilitation support (ibid.).<sup>12</sup>

The three existing local government associations of rural municipalities, urban municipalities, and districts have made efforts to raise awareness about the SDGs. The association of rural municipalities, for example, has adopted a *15 Points' Directive to Rural Municipalities* for the mainstreaming of SDGs in local planning processes and for establishing a monitoring process in the health, sanitation, and nutrition sectors (GTF 2019:44). In 2019, the NGO Federation of Nepal (NFN) conducted workshops with selected municipalities which agreed that local governments

are key actors that ensure commitments for Sustainable Development Goals by adopting local indicators and prioritizing their plans and budget allocations as per the needs and aspirations of the communities they are meant to serve. It is imperative and prime need to capacitate local government expertise with skills, knowledge and activation for implementing the 2030 Agenda ... It requires strong partnerships among stakeholders not only at global, national or provincial levels but also at local levels.

(NFN 2019:15)

In 2020, the three local government associations, supported by United Cities and Local Governments (UCLG), commissioned a study to analyze the status of SDG localization and identify ways to strengthen the contribution of the subnational level (Adhikary 2020).

Using the four elements of an enabling framework for localizing SDGs as discussed in Chapter 6 (legal mandates of local governments, participation in policy arenas, suitable planning and budgeting systems, and effective data and monitoring and evaluation [M&E] systems), the overall conclusion is that Nepal's enabling environment seems to be quite robust in a formal sense but shows weaknesses in implementation due to the continuing teething problems of transitioning to a federal system:

- Nepal has invested considerable efforts and resources in a proper unbundling exercise of the concurrent functions listed in the 2015 Constitution and has further detailed the functional assignment between the levels of government in the 2017 Local Government Act. Observers agree, however, that there is still confusion on the ground, and that further clarification of functions is required (e.g., World Bank/UNDP 2019; Karki 2020). Still, the legal stipulations regarding subnational functions do call for a strong role of local (and provincial) governments in the realization of Nepal's SDG agenda.
- With recent changes in late 2019, local government associations have joined the national SDG steering structure as formal members and have been consulted in the preparation of the 2020 VNR. The replication of multi-stakeholder committees at the provincial and local levels, once fully operationalized, will provide further opportunities for local governments and their representatives to participate in decisions on subnational SDG implementation plans and priorities.

- Nepal's development and budget planning system is quite complex and includes, for example, a medium-term development plan, medium-term expenditure frameworks (MTEF), annual plans, and other planning documents. In 2019, on average, one-third of local governments in each province had a development plan,<sup>13</sup> approximately 80% had sector-specific plans (e.g., education, health, agriculture, roads, drinking water, and disaster preparedness), at least 90% had completed all seven steps in the planning process and given budget ceilings to wards, and nearly all local governments had an annual investment plan (World Bank/UNDP 2019:114f).<sup>14</sup> Since the budget system increasingly tags expenditure lines with the related SDGs, budget tracking has become fairly easy at the national level and can be further spread to the provincial and local levels. The federal system has brought a new fiscal decentralization framework, and a substantial portion of the national budget is transferred to the subnational level. Whether this will be sufficient in comparison to the spending requirements for powers and functions assigned to the subnational level (including the ones directly related to the SDGs) remains to be seen. However, overall, Nepal has aligned its fiscal decentralization framework much better with its administrative and political decentralization framework than other countries in the region, and thus created some fiscal space for SNGs to spend on their SDG priorities.
- The national M&E system regarding the SDGs is managed by the National Planning Commission (NPC). According to Nepal's 2020 VNR,

the NPC has made various efforts to not only internalize the SDGs in its national M&E system but also to design similar frameworks for sub-national levels ... some variations in the M&E framework will be introduced to cater to the different sizes and requirements of local levels.

(GON 2020a:16)

- The VNR also points to the involvement of a wide range of stakeholders in developing and monitoring SDG strategies. Provincial level planning, where the integration of SDGs in planning and budgeting seems to be more advanced, needs to continue at local level. "Therefore, to assist in this process, planning and monitoring guidelines as well as SDG Localization Resource Book have been prepared by the NPC" (ibid.:17).

## **11.7 Perception and Involvement of Civil Society Organizations in Subnational Governance**

The involvement of civil society in decentralized federal governance is beginning to deepen in Nepal as civil society begins to understand the role they can play. Even before the new Constitution was enacted, civil society was substantially involved in local governance: under the government's previous Local Government and Community Development Programme (LGCDP), social



mobilizers all over the country were assisting local groups to formulate project proposals for funding by local governments. Community empowerment led by Ward Citizens Forums (WCF) and Community Awareness Centres (CAC) was crucial for raising citizens' awareness on basic rights and access to public services (Shrestha 2021). User committees in sectors have long enabled the identification and carrying out of small-scale capital projects at the local level. Because local governments have not yet assumed all of their responsibilities as stipulated in the Constitution, user committees remain active at the ward level.<sup>15</sup> Civil society has continued its important role of providing transparency about the roll-out of the new federal system and has added visibility to the debate about the proper role of SNGs. Various think tanks and the press have facilitated the discussion and debate. As far as local governance is embedded in the transition to the new federal system, it faces the same risk of unrealistic expectations regarding the scope, speed and depth of potential solutions and improvements as the federal structure itself.

### 11.8 External Support by Development Partners and Coordination Mechanisms

Supporting local governance and local development has always been a core area of development partners' portfolios in Nepal. The previous LGCDP operated as a joint umbrella program from 2008 to 2017; it was supported by a wide range of multilateral and bilateral agencies and included financial and technical assistance at the national and local levels (GON 2008). The new Provincial and Local Governance Support Programme (PLGSP) continues to align and harmonize cooperation between government and development partners in the field of subnational governance (GON 2019).

The preparation of a federal framework and the transition to the federal structure have also seen significant support from external partners, including bilateral partners such as the UK Department for International Development (DFID) (now Foreign, Commonwealth and Development Office [FCDO]), Finland, Germany, the Japan International Cooperation Agency (JICA), Norway, and Switzerland; multilateral agencies such as the United Nations Development Programme (UNDP) and the United Nations Children's Fund (UNICEF); and development banks such as the Asian Development Bank (ADB), the KfW Development Bank, and the World Bank. External support varies widely in terms of scope, time frame, territorial outreach, implementation modalities, and time horizon. Support has focused partly on policy issues, and partly on implementation support to the subnational level (for example, the newly created provinces). World Bank/UNDP (2019) listed about 50 projects in the field of local governance supported by 22 development partners with a total financial commitment of about USD 1.2 billion.

The **Asian Development Bank** has funded and co-funded several local governance initiatives in the past (see Shrestha 2021). Most recently, the Strengthening Subnational Public Management Program supported operationalizing fiscal



federalism and improving the public financial management (PFM) systems at the lower tiers of government. Currently, ADB is designing a policy-based loan (Developed Service Delivery Improvement Program [DSDIP]) which will focus on reforms to improve service delivery by SNGs through improvements in development planning and coordination, expenditure, resource mobilization, and service quality.<sup>16</sup> **DFID/FCDO** is financing a Local Infrastructure Services Programme to support infrastructure investment, planning, and better access to services. Multi-donor support by **UNDP**, the Swiss Agency for Development and Cooperation (**SDC**), and others is being provided to the PLGSP while the **World Bank** supports fiscal policy reforms related to the transition to federalism and to the improvement of public financial management systems.

Apart from the steering and governance structures of the PLGSP described earlier, other institutional forms of coordination include an International Development Partners Group (IDPG), which meets regularly and contains a specific Federalism Sector Working Group focusing on coordination and knowledge sharing about the transition process. Observers have noted that “the development partners are working together in productive ways. There appears to be healthy competition ... but there also is a good deal of sharing ideas and resources, and collaboration” (World Bank/UNDP 2019:143).

## **11.9 Current Challenges for Subnational Governments and Lessons Learned from the COVID-19 Pandemic**

The further strengthening and completion of the political, legal, and fiscal environment for subnational governance in Nepal is obviously part of the ongoing transition to the federal arrangements as established with the 2015 Constitution. Clearly, transforming a state structure requires time, resources, and effective learning loops for continuous improvement of processes and structures. Policy makers need to manage the expectations of citizens and be transparent about strategies, resources, and schedules. Some of the current challenges must be addressed by the national (federal) level, while others fall under the responsibility of the newly created units at the subnational level.

At the national level, one of the main challenges relates to the legal framework. This includes, for example, further fine-tuning the functional assignment decisions, completing missing legislation for civil service management, and implementing legislative reforms for public financial management. The Federal Civil Service Bill, Police Management Bill, Intergovernmental Coordination Bill, and Financial Procedure Bill were mentioned in late 2019 as missing pieces of the legal framework for federalism (GON/World Bank/UNDP 2019:2). Only one of these, the Financial Procedure and Fiscal Accountability Act, has been approved since then. Unless sector legislation is aligned with the overall multi-level governance structure, confusion about sector mandates and inadequate flows of sector resources will lead to efficiency losses and sub-optimal institutional arrangements for service delivery. Establishing functional working mechanisms between deconcentrated and devolved sector units at the subnational level is a

key requirement for making service delivery at the subnational level effective. Since provinces and local governments can pass their own legislation, the national ministries (such as the Ministry of Finance and the Ministry of Federal Affairs and General Administration) need to provide model laws and guidelines which can influence and steer the decisions at the subnational level, and thus contribute to the consistency of the legal framework, from the Constitution downward to local bylaws and administrative notifications. As of 2020, 16 such model laws have been released by the government (GON 2020b:9f).

The national level has responsibility for designing and operationalizing a comprehensive system of capacity building targeting national-level civil servants, officials at the subnational level, and elected representatives at the provincial and local levels. The long absence of elected local representatives created a lack of continuity and therefore a lack of institutional knowledge that could have been passed on from one generation of elected representatives to the next. This means that the level of skills and of understanding of legal, financial, and procedural matters is rather low at the subnational level. For national-level officials, the new status of the provinces is another challenge, as is the acceptance of the wider scope of autonomy for decision-making at the local level. Observers have pointed out that the mindset and working culture of politicians and bureaucrats carry a legacy of the previous and centralized system (Karki 2020). Large-scale transformation of state institutions requires a coherent and long-term capacity development strategy to build capacities, attitudes, and value systems of officials and political representatives at all levels of the state. It also requires public and private institutions that can provide the required capacity development services.

The federal level also plays a decisive role in making effective use of the established intergovernmental coordination arenas such as the IPC, and other national bodies such as the NPC and the NNFCR. This also calls for effective mechanisms of legal oversight and control over the subnational units to ensure consistency of political and legal frameworks.

National decisions are furthermore expected for the continuing transformation of the civil service structure; these need to ensure that local and provincial governments have adequate access to officials with the required technical, administrative, and managerial skills.

At the subnational level, officials and local representatives seek wide-scale and consistent support in capacity building. One aspect that has been mentioned is legal drafting skills, as the subnational level has substantial legislative functions. The SNGs are also key to building peoples' trust in the new federal arrangements, as many of the service delivery functions have been devolved. The emphasis of the new political arrangements on inclusion of minority groups and wide participation in public decision-making has raised huge expectations; the local and provincial levels are seen as prime responders to these expectations.

The COVID-19 pandemic has been a first litmus test for Nepal's new multi-level governance system. While the response to the pandemic showed a lack of clarity about the discharge of responsibilities related to the pandemic and overlap among relevant jurisdictions, it also made evident the significant roles

that the SNGs needed to play (TAF 2020). Observers have pointed out that instead of using recent legislation (such as the 2017 Disaster Risk Reduction and Management Act, which specifies political and institutional roles of the three levels for disaster responses, including disasters not triggered by natural hazards, such as COVID-19) the national government opted for using older legislation “that carried with them the legacy of an old, centralized, unitary system,” such as the 1963 Infectious Disease Act and the 1971 Local Administration Act 1971 “which gives the Federal Government power to mobilize Chief District Officers to implement orders related to the prevention and control of a pandemic” (Karki 2020:2).

A study by the Foundation for Development Management and the Nepal Institute for Policy Research indicated positive and negative aspects of the responses by Nepal’s multi-level governance system to the pandemic. On the positive side, the study mentions “reasonable initial preparation and responses on the part of the provincial governments,” a proactive role of local governments in creating awareness, and “an impressive participation of different stakeholders” such as the private sector, CSOs and the media. On the negative side, the

*Table 11.1* Recommendations from Handling the COVID-19 Pandemic in Nepal

<i>Federal Level</i>	<i>Provincial Level</i>	<i>Local Level</i>
Allow for subnational autonomy and focus on facilitating subnational responses.	Provide policy guidance to and support of local governments.	Formulate a disaster management plan.
Assign clear roles.	Develop a long-term strategy for disaster management (including pandemics).	Establish a revolving fund for managing disaster and pandemics.
Allocate resources to the provinces.	Establish a revolving fund for handling future disasters.	Create a database “of people, institutions and resources relevant for the disaster.”
Ensure procurement of major medical supplies for the provinces.	Create a database and proper information management system.	Provide civic education.
Provide funding for incentive packages for health workers.	Invest in relevant infrastructure.	Train volunteers.
Ensure effective information flow and a proper data base.		Establish an effective monitoring system.
Maintain law and order and border security.		

Source: FDM and NIPRe (2020:134ff).

researchers list the ineffectiveness of established committees due to unclear roles, inadequate quarantine facilities, lack of health facilities and qualified health staff, and lack of motivation by health workers (partly due to the absence of protective equipment). There was also the perception that the federal government was imposing procedures and decisions without considering local conditions and without consulting with local representatives (“centralized mindset”) (FDM/NIPRe 2020:132–134). Other data show that the pre-existing health capacity at the local level conditioned the ability of local governments to respond to the pandemic, and that local government funding was not aligned with the COVID-19 caseload of the local governments. Lack of funds meant simultaneously lack of health staff and health facilities (Yale, LSE, and Governance Lab 2020).

Table 11.1 summarizes policy recommendation for the three levels of governments for handling crises such as the COVID-19 pandemic.

## Notes

- 1 There are wide variations between the provinces in terms of area and population (e.g., Province 3 includes 21% of the population, while Province 6 includes only 5.8%) (ADB 2018:129).
- 2 Currently, there are 6,742 wards. Each ward is composed of an elected body (one chairperson and four members) and an administrative setup. The council meets at least every six months to approve plans and budgets and to review progress. The ward level has assumed some of the roles of the previous village development councils.
- 3 The terminology being used in the Constitution is “powers/jurisdiction.”
- 4 See also Clause 99 of the 2017 Local Governance Act.
- 5 The act is sometimes also called Local Government Operation Act.
- 6 Prior to the new Constitution, the LG system consisted of 3,157 village development councils (VDC), 75 district development councils (DDC), and 217 municipalities (ADB 2018:32).
- 7 Source: “Data reveals local elections a disaster for gender equality” (The Record, 24 Oct. 2017) (<https://www.recordnepal.com/wire/features/data-reveals-local-elections-a-disaster-for-gender-equality/> (accessed 27-02-2020)). World Bank and UNDP report that 38% of assembly seats were won by women, and 21% by Dalits (World Bank/UNDP 2019:73).
- 8 Several external development partners, such as the Asian Development Bank (ADB), the World Bank, and the German Development Bank Kreditanstalt fuer Wiederaufbau (KfW), have worked with TDF since its inception. Under the new legal framework, however, local governments cannot easily borrow money from the TDF or other financial institutions.
- 9 See <https://plgsp.gov.np/about-us> (accessed 13-10-2020).
- 10 The seven dimensions are: (i) local government infrastructure, (ii) political governance systems and procedures, (iii) inclusive participation and accountability systems and procedures, (iv) administrative systems and procedures, (v) local finances and financial management systems and procedures, (vi) local service delivery systems and procedures, and (vii) SDGs and local service delivery outcomes. (see <https://plgsp.com/resources/outline-for-local-government-institutional-systems-assessment-lisa/>) (accessed 22-6-2021).
- 11 See Ashish and Bhandari (2020) for a situational analysis of the transition in Nepal’s health sector.

- 12 The former Vice Chairman of the National Planning Commission, Pitambar Sharma, points to the crucial role of the provincial planning agencies as the “institutional base for SDG localization” (see <https://www.np.undp.org/content/nepal/en/home/presscenter/articles/2019/Development-Advocate-implications-of-the-SDGs.html> (accessed 22-6-2021)).
- 13 However, there are wide variations between the provinces: in Province 8, only 8% of local governments had such plans, in Province 4 more than 50% (World Bank/UNDP 2019: 115).
- 14 The most recent IMF Article IV Report on Nepal noted the rollout of the provincial line ministry budget information system (PLMBIS), and the introduction of budget planning systems at the local government level (IMF 2020: 39).
- 15 Ashish and Bhandarai (2020) point to the significance of community networks and instruments such as “mothers’ groups” for improving health sector outcomes.
- 16 See ADB (2021:42) for an overview of SDG-related activities in Nepal.

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# 12 Decentralization, Local Governance, and Localizing the Sustainable Development Goals in Pakistan

*Rainer Rohdewohld*

## 12.1 Constitutional and Legal Framework for Subnational Governments<sup>1</sup> and their Core Functions

The initial state structure of Pakistan, an Islamic and federal parliamentary republic, did not envisage a local government level as a distinct tier of government. Decentralization reforms are usually associated with democratization. In Pakistan, however, it was military governments that pushed for stronger local governments as a way of weakening political elites at the national and provincial levels. Ever since the military government of General Ayub Khan introduced local government units as part of its Basic Democracies Order in 1959, Pakistan has experienced what has been called “the countercyclical pattern of local democracy” (Cheema et al. 2015) as local government systems established under military governments were abolished by subsequent civil governments, and again re-instated by the next military regime.<sup>2</sup> It was only with the 18th Amendment of 2010 that Article 140A of the Constitution (in conjunction with Article 32) provided constitutional protection to local bodies, stipulating that each province “shall, by law, establish a local government system and devolve political, administrative and financial responsibility and authority to the elected representatives of the local governments.” The 18th Amendment, regarded as “the most comprehensive Amendment since the adoption of the Constitution in 1973” (Khan, H. 2017:567), has made local government affairs an exclusive jurisdiction of the provinces; therefore, there is no federal (national) legislation covering local government, and no federal institution dealing with local government affairs.<sup>3</sup>

Article 140A, however, did not specify in detail how local government systems should be structured. As a result, the local government systems of the four provinces<sup>4</sup> differ substantially after 2010. The main differences relate to the tenure of elected local representatives (between 4 and 5 years); the tiers, composition, and categories of local governments (between 2 and 3); the kind and scope of functions devolved to the local governments (see below); the fiscal arrangements; the election mode for local representatives (such as direct vs. indirect, party-based vs. non-partisan, and first-past-the-post vs. proportional representation); and the quota system used to ensure a minimum representation for women, youth, and other groups (see PILDAT 2019, OECD/UCLG 2019, Shafqat



2014). Provinces have also dealt differently with the issue of rural and urban territories; Balochistan, Punjab, and Sindh have kept this divide while Khyber Pakhtunkhwa (KP) opted for integrated local government units.<sup>5</sup> Balochistan and Punjab constituted five types of local governments: union councils and district councils in the rural areas; and municipal committees, municipal corporations, and metropolitan corporations in the urban areas. In addition, Punjab introduced district authorities for health and education, which were formally categorized as local government bodies although, in reality, the provincial sector departments determined their activities and managed their resources (Afzal 2018).

Separate legal arrangements for local governments cover the Islamabad Capital Territory (ICT) and the cantonments (i.e., housing settlements of the Armed Forces located within the territory of a district or a city). These are federal laws. In 2018, seven so-called “tribal districts” in KP which did not have any form of elected local government before,<sup>6</sup> were politically and administratively merged with the province of KP. The 2019 amendment of the KP Local Government Act (LGA) extended the jurisdiction of the act to these areas where the same local government system is now being established as in the rest of the province.

A common feature of the local government systems in Pakistan—before and after the 2010 constitutional amendment—is the continuing dominance of the provincial government over the policies and operations of local government as “local governments in Pakistan have not been granted sufficient authority to demonstrate better governance” (Cheema et al. 2015:76) (see also Shafqat 2014). The post-2010 arrangements perpetuated the disconnect between the political, administrative, and financial dimensions of decentralization (Ferrazzi & Rohdewohld 2017:189) as local governments had limited financial and administrative autonomy, and very little influence in managing their human resources. Weak fiscal capacity and insufficient revenue generation efforts made them largely dependent on fiscal transfers from provincial governments (SPDC 2018a).

In 2018, provincial and national general elections brought in new coalition governments at the national level and in Punjab, while confirming the existing coalition government in KP. These political events resulted in another wave of legal changes:

- In **KP**, significant amendments to the KP LGA in April 2019 abolished the district level as a political level and as a unit of self-government,<sup>7</sup> shifted the focus of devolution to the *tehsil* level<sup>8</sup> (including the devolution of certain social and economic sector functions), introduced the direct election of the *tehsil* mayor, and determined that the *tehsil* council would consist of the chairpersons of the village and neighborhood councils.<sup>9</sup>
- In **Punjab**, a completely new legal regime was introduced by replacing the 2013 Punjab Local Government Act with two separate pieces of legislation: the Punjab Local Government Act (PLGA) 2019, and the Punjab Village Panchayats<sup>10</sup> and Neighbourhood Councils Act 2019. The latter replaced the level of the union council with the lower level of village *panchayats* and

neighborhood units. The new PLGA abolished the district councils and the district authorities for health and education, introduced *tehsil* councils for the rural areas, and added “town committee” as another category of local government for the areas in urban transition. A major departure from the past is the (yet untested) use of the proportional representation election system as compared to the established first-past-the-post system<sup>11</sup> and the introduction of direct elections for the post of mayor.

On 25 March 2021, the Supreme Court of Pakistan ruled Section 3 of the province’s 2019 Local Government Act *ultra vires* the Constitution and ordered the restoration of the local governments as they existed prior to the 2019 LGA. On 17 October 2021, the provincial government, with Notification SOR(LG)1-11/2019, re-constituted the local governments as they existed under the 2013 PLGA, just to complete their remaining term till 31 December 2021. In December 2021, a new local government act was approved as an ordinance by the provincial government; it is yet to be confirmed by the Provincial Assembly.

- In *Balochistan*, two policy options have been under consideration since late 2018. One is to amend the existing law to further empower the local governments, without tinkering with the existing structure, core functions, and categories of local government. The other is to enact an altogether new law along the line of KP, which then would introduce a two-tiered system consisting of union councils and *tehsil* council/*tehsil* local governments and the direct election of mayors. Until late 2021, a political decision was still pending.
- In *Sindh*, the provincial government (which is formed by a different coalition of political parties than the federal government) initiated an amendment to its 2013 Local Government Act in November 2021. The amendment, which was passed by the Provincial Assembly of Sindh on 25 November 2021, among others, created town municipal corporations instead of district corporations, and re-centralized health and education functions from the local to the provincial level.
- In early 2020, the federal government announced plans to enact a new law for the ICT (a federal legislation) in line with the new local government legislation of Punjab. The initial draft of the law is still under consideration.

It is difficult to ascertain where and to what extent these legal changes were driven by empirical evidence on the ground (such as failure of local governments to deliver on their functions). As we describe later, there has been positive empirical evidence in the past, and little convincing evidence has been provided by the provincial decision makers. It seems that these changes were rather driven by political considerations (such as party politics and competition between members of the provincial assemblies and elected representatives at the local level) and the interests of the provincial bureaucracy.<sup>12</sup>

By the end of 2021, most local government units throughout Pakistan found themselves without elected representatives and without elected mayors/chairpersons, while administrators appointed by the provincial governments ran their affairs. In KP, the mandate of the councilors elected in 2015 had expired in August 2019. It was only in October 2021 that the Election Commission of Pakistan announced elections for the village and neighborhood councils and for the mayors resp. chairpersons of the Tehsil Councils. The first phase of these elections took place in January 2022; the second phase was scheduled for the end of March 2022. In Punjab, the Election Commission announced elections for the end of May 2022.<sup>13</sup> In Balochistan, the term of the councilors expired in January 2019, but new elections were put on hold because of the discussion on whether to make changes to the local government system. In Sindh, the term of the elected councilors expired in August 2020 without any announcement regarding new elections. Otherwise, the only election at the local level was the election of the boards of the cantonments which were conducted in September 2021.

There are several reasons for this situation. They include inertia and lack of concern of the provincial administration to make the necessary preparations for elections; resistance by political parties due to vested interests of provincial and national legislators; the complexity of coordinating the delimitation of constituencies with the Election Commission; the costs of local elections; and the need to amend a plethora of rules, regulations, and administrative notifications following the legal changes of 2019. Legal challenges to existing legislations cast a shadow of legal uncertainty on the new arrangements. And finally, the outbreak of the COVID-19 pandemic in early 2020 shifted political attention and much of the fiscal resources to containing the disease and mitigating its social and economic implications.<sup>14</sup>

The failure to call fresh local elections stands in stark contradiction to the stipulation of the 2017 Election Act that local elections are to be conducted “within one hundred and twenty days of the expiry of the term of the local governments of a Province, cantonment, Islamabad Capital Territory or Federally Administered Tribal Areas” (sec 219.4).

### *Core Functions of Local Governments*

The provincial local government acts determine local government functions in a broad manner, with details being defined in so-called “Rules of Business” for each tier of local government. In general, the lowest level of the local government system—traditionally the union council, or in KP after 2013 and in Punjab after 2019 the village/neighborhood council (VC/NC)—oversees community development, village or community infrastructure projects, and often civic registration. In KP, for instance, the VC/NC is tasked with monitoring the performance of the sector units, and with reporting any shortcomings and observations to the higher levels.

In Punjab, the union council until 2019 had been given the specific task of rural sanitation and waste management. The middle level, such as the *tehsil* municipal administration, town committee, or municipal committee, normally deals with municipal services. The 2019 amendment of the KP local government act devolved certain social sector functions to this level, and the new LGA in Punjab also envisages the delegation of certain social sector functions to the local governments at this level. For the highest tier in the local government system, functions differed substantially between urban local governments (metropolitan/municipal corporations) and rural local governments (district councils). The urban governments dealt with municipal services in the widest sense. District councils often had a monitoring role for the lower levels, and dealt with some of the functions of the lower levels. For example, until 2019 district councils in Punjab were tasked with municipal services such as sanitation and waste management (although this function was hardly exercised).

It is noteworthy to look at how the different local government systems have treated important sectors like health and education:

- In **KP**, both health and primary/secondary education had been devolved to the district level under the 2013 LGA. An amendment of the act in 2015 allowed the provincial government to decide on the outsourcing of sector services to private entities; this was particularly relevant for the health sector where, in many cases, the management of health facilities was entrusted to private service providers. Consequently, major parts of devolved health functions were effectively withdrawn from the local government system. Following the amendment of the LGA in 2019, health functions are no longer included in the list of devolved functions while primary and secondary education remained devolved functions; only this time the devolution was to the *tehsil* instead of the district level.
- In **Punjab**, the 2013 LGA assigned health and education functions to so-called district authorities, i.e., hybrid institutions involving provincial and district representatives (see above). The new 2019 legislation abolished the district authorities and stipulated delegation of selected functions in these sectors to the local governments.<sup>15</sup> The 2021 ordinance created several district authorities including again in the health and education sectors.
- **Balochistan** did not devolve health and education functions to the local governments in its 2010 LGA; neither did **Sindh** (SPDC 2018b:44).

The local government acts of the provinces do not specify local government functions as *obligatory* or *discretionary*, and quite often the detailed jurisdiction for functions need to be clarified and renegotiated between provincial and local authorities.<sup>16</sup>

Table 12.1 attempts to summarize the distribution of functions between the provincial and local levels. However, it needs to be emphasized that this summary only gives a general overview; even after the 2019 changes of local government legislation in KP and Punjab, significant differences in local government systems between the provinces continue to exist.

Table 12.1 General Assignment of Functions Between Provincial and Local Level (2013–2019)

	<i>Provincial Level</i>	<i>Local Government Level</i>
1. <i>General public services (administration)</i>	Civil service; police; revenue administration/excise/taxation; planning; general administration.	Local government service; civic registration (birth and death, marriages and divorces certificates, etc.).
2. <i>Public order and safety</i>	Disaster management, relief, and rehabilitation.	Public safety; local support to relief and rehabilitation measures.
3. <i>Economic affairs/ transports</i>	Provincial-level infrastructure and services (roads and buildings); urban public transport; public works; agriculture; cooperatives; energy; forestry, wildlife and fisheries; industries, commerce, and Investment; labor; mines and minerals.	Local-level infrastructure and services; roads; streets; bus terminals/stands; urban traffic; regulation of livestock and dairy development.
4. <i>Environment protection</i>	Policies and regulations; enforcement.	Support in enforcement.
5. <i>Housing and community amenities</i>	Urban housing; regional spatial planning.	Building control; land use planning; zoning; private housing schemes.
6. <i>Health</i>	Sector regulation; sector planning; tertiary health services and teaching hospitals.	Primary health services (such as basic health units); secondary health services (such as <i>tehsil</i> and district hospitals); mother and child health care.
7. <i>Culture and recreation</i>	Museums, libraries, arts, and sports facilities; religious affairs.	Local museums; libraries, arts, and sport facilities; public parks and gardens.
8. <i>Education</i>	Sector regulation; higher education; teacher education; curriculum development; approval and provision of teaching material and equipment; sector planning; tertiary education; policies and sector planning for non-formal and adult education.	Primary and secondary education; pre-school education; non-formal and adult education.
9. <i>Social welfare</i>	Policy and regulation; population issues; women's development; youth.	Social welfare services.
10. <i>Water and sanitation</i>	Large scale water supply and sewage schemes; irrigation.	Local/urban water supply schemes; protection of local water supply sources; sewage; waste collection and disposal.

Source: Author's compilation, based on Local Government Acts of the Provinces; CRCP (n.d.).

## 12.2 Basic Data on Subnational Governments

There were more than 10,000 local government units under the local government systems established following the 2010 constitutional amendment. This number skyrocketed to approximately 32,500 after 2019, largely because of Punjab's shift from the union council level to the village *panchayat* and neighborhood council level.<sup>17</sup> In November 2019, the Government of Punjab notified a total of 455 local governments at the medium and highest levels. In KP, the establishment of a formal local government system in the former Federally Administered Tribal Area (FATA) resulted in the creation of an additional 25 *tehsil* local governments and approximately 700 village and neighborhood councils. Both provinces have abolished the district level as a political level. Table 12. 2 summarizes the number and level of local government units in the four provinces in the 2013 system and following the 2019 changes.

The total number of elected representatives at the local levels was approximately 150,000 after the 2015 elections—potentially giving Pakistan a huge number of politically engaged citizens (see Tables 12.3–12.6 with details on elected representatives in each province). This number will increase even more in the future because of the changes in Punjab.

A minimum representation of women in local councils was ensured by a system of reserved seats—an arrangement which can be widely found across the South Asian subcontinent. Women were given 2% during the Basic Democracy system (1959) and in the 1979 Local Government system. This percentage was increased to up to 25% until the 1998 elections, but with differences between the provinces. The Devolution Plan of 2001 had a mandatory 33% of reserved seats across Pakistan, resulting in approximately 24,000 women being elected (Alam & Wajidi 2013:30). The mandatory quota was dropped in the subsequent changes of local government legislations. Following elections in 2013 and 2015, approximately 19.6% of councilors were women. There was reservation for women councilors of 33% in Balochistan, 22% in Khyber Pakhtunkhwa and Sindh, and 15% in Punjab. Approximately 29,500 women were elected to local councils in the 2015 elections on reserved seats, but only a few women were elected on non-reserved (or general) seats (Nazir et al. 2017; CLGF 2019).

While quotas do ensure a minimum level of women representation in the elected bodies, they do not ensure that women can play an active role as social restrictions continue to curb political participation of women outside their family circles (Saleem et al. 2019:27). A gender-sensitive approach to capacity building for women representatives would need to include a broad range of measures, from individual training to the creation of an enabling environment in relevant institutions (Jabeen & Iqbal 2010).

Information on local government staff is difficult to obtain as even provincial-level data is often not consistent. Numbers of staff directly recruited and employed by local government units (normally manual labor and lower-level staff) are not collected and maintained centrally. For KP and Punjab provinces, the following data have been established for the period following 2013:

Table 12.2 Number and Levels of Local Government Units (2013 and 2019)

<i>Balochistan</i>		<i>KP</i>		<i>Punjab</i>		<i>Sindh</i>		<i>Total</i>	
2013	2019	2013	2019	2013	2019	2013	2019	2013	2019
<i>Lowest level</i>	Union Council (n = 635)	Village/ Neighborhood Council (n = 635)	Village/ Neighborhood Council (n = 3,339)	Union Council (n = 4,015)	Village Panchayats and Neighborhood Councils (n = 25,218) <sup>a</sup>	Union Council (n = 1,175)	Union Council (n = 1,175)	9,488	31,582
<i>Medium level</i>	Municipal Committee (n = 53)	Municipal Committee (n = 53)	Tehsil (n = 70)	Municipal Committee (n = 182)	Town Committee (n = 160) Tehsil Council (n = 136) Municipal Committees (n = 134)	Union Committees (n = 351) Town Committees (n = 148) Municipal Committees (n = 36)	Union Committees (n = 351) Town Committees (n = 148) Municipal Committees (n = 36)	493	796
<i>Highest level</i>	District (n = 32) Municipal Corporation (n = 4) Metropolitan Corporation (n = 1)	District (n = 32) Municipal Corporation (n = 4) Metropolitan Corporation (n = 1)	District (n = 24) City District (n = 1)	District (n = 35), Metropolitan Corporation (n = 1) Municipal Corporation (n = 11)	Municipal Corporation (n = 16) Metropolitan Corporation (n = 9)	District (n = 24) Metropolitan Corporation (n = 1) Municipal Corporation (n = 9)	District (n = 24) Metropolitan Corporation (n = 1) Municipal Corporation (n = 9)	143	97
<i>Total</i>	725	725	3,434	4,333	25,673	1,744	1,744	10,147	32,475

Source: Election Commission (2016), Local Government, Elections and Rural Development Department KP (2020), Local Government and Community Development Department Punjab (2020). Note: The table does not include the former FATA, the Islamabad Capital Territory (ICT), the cantonments, or local government units outside the four provinces.

<sup>a</sup> The 2021 Ordinance approved by the Punjab Provincial Government reduced this number to approx. 6,000.

*Table 12.3* Elected Representatives in KP by Tiers and Categories of Seats (2015)

<i>Tiers</i>	<i>Reserved Seats</i>					<i>Total</i>
	<i>General Seats</i>	<i>Women</i>	<i>Peasants/ Workers</i>	<i>Minorities</i>	<i>Youth</i>	
<b>District</b>	1,017	343	62	62	62	<b>1,546</b>
<b>Tehsil</b>	1,017	349	89	89	89	<b>1,633</b>
<b>VC/NC</b>	24,009	7,002	3,501	3,501	3,501	<b>41,514</b>
<b>Total</b>	<b>26,043</b>	<b>7,694</b>	<b>3,652</b>	<b>3,652</b>	<b>3,652</b>	<b>44,693</b>

Source: Election Commission (2016).

*Table 12.4* Elected Representatives in Punjab by Categories of Local Governments and Category of Seats (2015)

<i>Category of Seats</i>	<i>District Councils</i>	<i>Metropolitan Corporations</i>	<i>Municipal Corporations</i>	<i>Municipal Committees</i>	<i>Union Councils</i>	<i>Total</i>
<i>Chairmen/Vice- Chairmen</i>	3,281	274	460	-	-	<b>4,015</b>
<i>General</i>	19,686	1,644	2,760	3,587	-	<b>27,677</b>
<i>Women</i>	6,562	548	920	657	6,562	<b>15,249</b>
<i>Peasants/ Workers</i>	3,281	274	460	215	3,281	<b>7,511</b>
<i>Youth</i>	3,281	274	460	182	3,281	<b>7,478</b>
<i>Non-Moslem</i>	3,281	274	460	222	3,281	<b>7,518</b>
<b>Total</b>	<b>39,372</b>	<b>3,288</b>	<b>5,520</b>	<b>4,863</b>	<b>16,405</b>	<b>69,448</b>

Source: Election Commission (2016).

Note: Different election modalities applied for general seats and reserved seats.

- In *KP*, there were 925 sanctioned posts for the Provincial Unified Group of Functionaries (PUGF)<sup>18</sup> which comes under the management of the Local Council Board. However, only about 500 positions were filled.<sup>19</sup>
- In *Punjab*, the number of sanctioned posts of local public servants (comparable to the PUGF in *KP*) was 2,180, of which only 1,306 were filled. These posts come under the management of the Punjab Local Government Board.<sup>20</sup>

Detailed and accurate data on local government revenues and expenditures in the four provinces are difficult to obtain, partly due to the lack of a vertically integrated reporting system and the overall quality of public financial management systems. According to the United Cities and Local Governments (UCLG) GOLD Report 2019, 38.1% of general government expenditure and 53.4% of



Table 12.5 Elected Representatives in Sindh by Categories of Local Governments and Category of Seats (2015)

Category of Seats	District Councils	Metropolitan Corporations	District Municipal Corporations and Municipal Corporations	Municipal Committees	Town Committees	Union Committees	Union Councils	Total
Chairmen/Mayor and Vice-Chairmen/Vice-Mayor	48	2	18	72	296	702	2,350	3,488
General	1,175	209	351	605	984	1,404	4,700	9,428
Women	389	69	116	201	332	702	2,350	4,159
Peasants/Workers	58	10	19	40	148	351	1,175	1,801
Youth	58	10	19	40	148	351	1,175	1,801
Non-Muslim	58	10	19	40	148	351	1,175	1,801
Total	1,786	310	542	998	2,056	3,861	12,925	22,478

Source: Election Commission (2016).

*Table 12.6* Elected Representatives in Balochistan by Categories of Local Governments and Category of Seats (2015)

<i>Category of Seats</i>	<i>District Councils</i>	<i>Metropolitan Corporations</i>	<i>Municipal Corporations</i>	<i>Municipal Committees</i>	<i>Union Councils</i>	<i>Total</i>
<i>Chairmen/Vice-Chairmen</i>	<b>64</b>	<b>2</b>	<b>8</b>	<b>106</b>	<b>1,270</b>	<b>1,450</b>
<i>General</i>	<b>635</b>	<b>58</b>	<b>167</b>	<b>820</b>	<b>5,489</b>	<b>7,169</b>
<i>Women</i>	<b>212</b>	<b>19</b>	<b>55</b>	<b>272</b>	<b>1,774</b>	<b>2,332</b>
<i>Peasants/Workers</i>	<b>40</b>	<b>3</b>	<b>8</b>	<b>57</b>	<b>635</b>	<b>743</b>
<i>Youth</i>	<b>40</b>	<b>3</b>	<b>8</b>	<b>57</b>	<b>635</b>	<b>743</b>
<i>Non-Moslem</i>	<b>40</b>	<b>3</b>	<b>8</b>	<b>57</b>	<b>635</b>	<b>743</b>
<i>Total</i>	<b>1,031</b>	<b>88</b>	<b>254</b>	<b>1,369</b>	<b>10,438</b>	<b>13,180</b>

Source: Election Commission (2016).

general government revenue was with subnational governments (SNGs), including the provinces. SNG expenditures accounted for 8.9% of GDP, and SNG revenues accounted for 8.4% of GDP (UCLG 2019:103). Since these data include the provincial level, they say little about the fiscal situation of the local government tiers in each province.

In *KP*, the LGA 2013 provided that at least 30% of the Provincial Annual Development Program is transferred to local governments. An amendment of the LGA in 2017 allowed the provincial government to allocate a certain amount from these grants to a public interest fund “to be used by public functionaries for the development of local governments” (Section 53). The provincial government can also direct the formula for the distribution of grants to local governments. The KP Provincial Finance Commission Award 2016–2017 included four criteria: salary, non-salary, development grants, and grants to local councils. While the distribution of salary and non-salary was based on actual expenditures of local governments, development grants were shared by using criteria such as population (50%), lag in infrastructure (20%), poverty (25%) and revenue base (5%) (SPDC 2018b:44).<sup>21</sup> The proposed budget for the FY 2020/2021 envisaged PKR 54.89 billion as local government development expenditures; together with current expenditure (such as salary and non-salary) the province expected to spend a total of PKR 261.7 billion for the local tiers (see Table 12.7).

The Interim Provincial Finance Commission (PFC) Award of *Punjab* in 2017/2018 had introduced criteria for transfers from provinces to districts and municipalities, including population, per capita expenditure, and various needs indicators. However, most of the local government transfers went to the district authorities for health and education (16 and 66.9%, respectively, of the local government share); only 12.8% was allocated to the elected local governments such as metropolitan corporations, municipal corporations, municipal committees, and district councils (SPDC 2018a:58). The share of union councils was

Table 12.7 Summary of Local Government Development Funds (2020/2021)

	Balochistan		KP		Punjab		Sindh	
	In bn PKR	In %	In bn PKR	In %	In bn PKR	In %	In bn PKR	In %
Provincial Development Expenditure	118.28	100	318.0	100	337 bn	100	232.94	100
Local Government Development Funds (ADP)	n/a	n/a	54.89	17.3	62 bn	18.4	15.0	6.4

Sources: Sindh (2020); KP (2020); Balochistan (2020), Government of the Punjab (2020), Government of KP (Finance Department) 2020. Note: Data for Punjab include only the allocation to District Councils.

4.3% based on a uniform payment of PKR 3.6 million per union council (SPDC 2018b:43). In July 2019, a new Punjab Finance Commission was established. The budget for FY 2020/2021 envisaged the transfer of up to PKR 447 billion to local governments, but this included PKR 95 billion to district health authorities and PKR 290 billion to district education authorities, while only PKR 62 billion were earmarked for district councils (Government of the Punjab 2020). The Punjab Finance Commission will decide about the share of each local government keeping in view the allocation of PKR 62 billion.

In Sindh and Balochistan, no PFC awards have been given yet. Both provinces, however, have budget allocations for local councils. *Balochistan* has earmarked a total of PKR 11 billion as grant-in-aid to local councils; the sector allocation to “local government and rural development” is PKR 12.99 billion. *Sindh* has earmarked a total of PKR 78 billion as grants to local councils, and PKR 15 billion as local development funds; in total, 6.4% of the province’s development expenditure is channeled to the local tiers.<sup>22</sup>

The financial needs of local governments for contributing effectively and within their legal mandates to the achievement of the Sustainable Development Goals (SDGs) is not yet properly reflected in the PFC awards (Seiler 2019).

### 12.3 Provincial Government Institutions and Policies Regarding Subnational Governments

In the provinces, local government departments<sup>23</sup> are the key provincial departments in charge of local government affairs. They prepare the legal framework (including rules under the local government acts, policy, and other legal instruments) and exercise administrative and legal supervision and oversight. In many cases, the local government departments coordinate their initiatives with two other core departments: the finance department, and the planning and development (P&D) department. Finance departments deal with the fiscal transfers to local governments, and often also regulate revenue generation as well as loan

opportunities. The P&D departments deal with overall planning processes, for both routine and development expenditures.<sup>24</sup> In KP, officials of these two departments are sometimes located at the district level.

As part of the 2001 Devolution Plan, all provinces had established provincial finance commissions to determine the overall share of local governments from the provincial divisible pool and to decide on the formula sharing among local governments. By 2006–2007 “almost 38 percent of provincial resources were transferred. The share ranged from 30 percent in Balochistan to 40 percent in Punjab” (Pasha 2018:492). The revival of local government systems following the 18th Amendment also meant the revival of PFCs, and all provinces except Balochistan have re-established such a body<sup>25</sup> to prepare the policies for fiscal decentralization, determine the formula used to share what is called the “provincial allocable pool,” and determine the allocation to and share of each local government unit. Often, decisions of the commissions are included in the annual finance acts of the provinces. The composition of the commissions has been criticized because of the dominance of members from the provincial assemblies, and lack of local representation (ibid.:495).

The performance of the PFCs has been mixed. In the case of Punjab, challenges included “the failure to announce PFC Awards, the absence of a permanent commission, the lack of financial authority and responsibility at local level, and the low priority accorded to financial devolution” (CDPI 2018:8ff). Variations in the vertical and horizontal distribution of resources, different approaches in defining the divisible (or shareable) pool of resources, and the use of different criteria for the horizontal distribution of fiscal grants are some of the dissimilarities which have been observed post-2010 (SPDC 2018b:40ff). In addition to frequent delays in renewing awards, there have been delays in effecting the awarded transfers to local governments, thus creating a situation of uncertainty about the availability of funds for local initiatives and projects.

Another important body is the *local government commission*, which brings together provincial representatives, local government representatives, outside experts and professionals, and sometimes members of the provincial assembly.<sup>26</sup> This commission usually monitors the performance of local governments and deals with legal and other conflicts between the local and the provincial level or between local governments. In Balochistan, this function is performed by the provincial local government department as its law does not envisage any such commission.

Local governments have very limited autonomy in managing their human resources as illustrated by the establishment of provincial bodies that perform human resource management functions for professional staff working at the local level. Called the Local Council Board (in KP) or the Local Government Board (in Balochistan, Punjab, and Sindh), these bodies recruit staff, design career structures, determine pre-service and in-service training programs, decide on transfers and promotions, and pay pensions to retired public servants. Mostly, these bodies cater to public servants called Chief Officers and Municipal Officers, who can be transferred by the respective provincial government between local

government units within the province. The local council boards are managed by provincial officials only, without any representation from local governments. Their funds are appropriated from the budgets of the local governments in the form of an annual contribution, either by the finance departments deducting the contribution at source, or by remitting funds from the local governments to the boards. In addition, the legislative instruments on local governments envisage a service comprising the lower staff of local governments and authorize local governments to recruit staff against the schedule of establishment as approved by the provincial government. In reality, this deters local governments from independently recruiting and managing the lower staff as they must follow the sanctioned policy of the provincial government.

All provincial governments have established local development authorities, which deal with urban development and municipal matters, and which are under the control of the province.<sup>27</sup> Often, the mandates of these agencies overlap and interfere with the municipal functions of urban local governments. For instance, in Punjab, such bodies have been established for urban services like public transport, parks, waste management, housing development, and water supply. The new Punjab Local Government Act 2019 brings these authorities under the control of the metropolitan local governments.

The involvement of provincial and national parliamentarians in the domain and functions of local governments is a noteworthy feature in Pakistan that can potentially undermine the autonomy and mandate of locally elected representatives. In the annual budgets, development funds for infrastructure and other projects are allocated by the federal and provincial assemblies to their members, to be disbursed in their respective constituencies. While formal procedures have been created to align such projects and funds with existing local development plans, in reality the assembly members have the political clout to easily bypass such plans or have them modified to suit their interests. Vertical coordination among the tiers of local government remains a major challenge. Planning systems are ill equipped to ensure this coordination, and cooperation among local governments is virtually unknown (see Janjua & Werter 2019 on the example of Punjab).

The 18th Amendment in 2010 removed any federal jurisdiction for local government affairs. While no federal ministry exists to deal with local government affairs directly, other intergovernmental coordination mechanisms can be used to explore such issues, such as (i) the Council of Common Interest, and (ii) the Federal Ministry for Inter-Provincial Coordination (IPC). The IPC is the institutional focal point for facilitating general coordination between the federal government and the provinces in economic, cultural, and administrative fields, and for promoting uniformity of approach in policymaking and implementation in all fields of common interest. Since 2018, an experience sharing platform called Inter-Provincial Meetings on Local Governance (IPM) has allowed the four provincial governments to discuss local government issues and to share experiences on issues such as participatory development planning and the 2019 legal changes. Until mid-2020, six such interprovincial meetings have taken place on a rotating basis.<sup>28</sup> With support from development partners such as the United Nations

Development Programme (UNDP) and German Development Cooperation (GIZ), efforts started in late 2019 to transform this informal exchange into a more structured and regular mechanism by forming an Inter-Provincial Working Group on Local Governance (IPWG) which would also include the federal Ministry for Inter-Provincial Coordination as a stakeholder.<sup>29</sup>

## **12.4 Interdepartmental and Intergovernmental Coordination Mechanisms Relevant for Subnational Governments**

Within the provincial governments, the cabinet is usually the focal point for consultations and consensus-building between different provincial departments. It can also establish committees for specific issues, when needed.<sup>30</sup> Provincial-level bodies like the finance commissions and the local government commissions normally involve representatives from different key departments and are therefore another platform to forge consensus between the departments concerned. During 2017 and 2018, KP had established a Devolution Support Committee (DSC) consisting of the Local Government, Finance, and P&D Departments. The DSC was meant as a fast-track mechanism to decide on local government issues involving the mandates of these three departments. Due to frequent changes of senior officials and a shift in political focus to the preparation of the new legislation, the DSC was discontinued after 2018. Balochistan and Sindh have only ad hoc coordination mechanisms.

## **12.5 Performance of Subnational Governments**

Compared with other levels of government, empirical evidence on the performance of the current local governments, the quality and quantity of service delivery, or the level of citizen satisfaction is inconclusive, patchy, and hard to generalize over time and location. Making a sound assessment of local government performance is challenging, given the often unclear and overlapping mandates of levels of government (exemplified by the various local development authorities which are run by the provinces but in most cases engage in functions assigned to local governments), the lack of continuity of the local government systems, and the strong role of members of the provincial and national assemblies.

The fact that local governments in Pakistan do deliver on decentralization's promise of improved service delivery was demonstrated for previous local government systems. Aslam and Yilmaz (2011) analyzed four sets of services (street paving, construction of water canals, construction of sanitation sewer lines, and support for education service delivery) in 183 villages across Pakistan following the Local Government Ordinances of 2001. They confirmed "that decentralization has positively impacted the magnitude of all services provided to the villages on average" (p.167). An earlier assessment (ADB/World Bank/DFID 2004) likewise indicated positive outcomes of the 2001 decentralization reforms. In 2018, the Social Policy and Development Centre (SPDC) pointed out that previous growth in the social development sector (such as net enrolment ratio and

gender equality in primary education and access to tap water) had coincided with the period of political, fiscal, and administrative devolution following the 2001 Devolution Plan (SPDC 2018c). This evidence from the past should give confidence to current local government proponents that devolving functions and responsibilities to the subnational level can have a positive impact on the country's Sustainable Development Goals (SDGs) agenda.

## **12.6 Political, Institutional, and Operational Framework for the 2030 Agenda and Localizing the Sustainable Development Goals**

Pakistan has been an early supporter of the 2030 Agenda and its 16 Sustainable Development Goals. In February 2016, it became the first country in the world to adopt the SDGs as part of its national development agenda through a National Assembly Resolution. The 2030 Agenda influenced the 12th Five-Year Plan 2018–2023 of the country and the provincial medium-term development strategies. A comprehensive National SDG Framework was approved by the National Economic Council (NEC), the country's highest economic policy-making forum, in March 2018. This framework sets baselines and targets for SDG indicators and feeds into the SDGs' Monitoring and Evaluation Framework. It distinguishes three categories of SDGs. Category I includes such issues as food security, equitable quality of education, and responsive institutions, which are of high priority and require immediate attention. Category II SDGs<sup>31</sup> have a longer time frame and need consistent policy support. Category III SDGs<sup>32</sup> will require substantial institutional reforms (Planning Commission 2018). According to the Government, institutional arrangements, such as establishing SDG support units at federal and provincial levels, will ensure the vertical and horizontal coordination among different tiers of government and nongovernmental stakeholders (GoP 2019).

The latest report by the Sustainable Development Solutions Network (SDSN) ranks Pakistan 134th among the 166 countries covered in the 2020 assessment, indicating that out of the 17 SDGs, 2 are on track, 1 is showing a negative trend, 8 are stagnating, and 4 are showing moderate improvements. For two SDGs, no information was available (Sachs et al. 2020:40). The country submitted its first voluntary national review (VNR) report in 2019.

The 2019 VNR acknowledged that the effective implementation of the 2030 Agenda in Pakistan

hinges on the effectiveness of the local government system – a potentially viable tool for embedding the SDGs at the grassroots level. The goals' achievement ultimately depends on the ability of local and provincial governments to promote integrated, inclusive and sustainable development.

(GoP 2019:13)

The concept of “localizing SDGs” is well known in Pakistan: in March 2017, a local government summit discussed potential strategies for SDG localization,

focusing on the six major issues of education, employment, energy, water, peace, and governance (Government of Pakistan 2017). In April 2018, the Asia-Pacific Chapter of UCLG (UCLG-ASPAC) and the local council associations from the four provinces organized an international conference (*Think Global, Act Local—SDG Implementation through Local Governments*) to discuss the role of SNGs in achieving the 2030 Agenda. In their final statement, the local government representatives from the four provinces and the ICT underlined their willingness to commit resources and planning power to achieve the SDGs within the purview of their authority (LCA KP & LCAP 2019:26).

In reality though, the role and influence of local governments for achieving SDGs must be seen as limited, especially if the term “local government” is meant to refer to elected councils at the local level. For the preparation of the 2019 VNR, only the provincial governments were consulted (UCLG 2019:25). A 2018 assessment of the enabling institutional environment for local governments in terms of supporting sustainable development (called “Cities Enabling Environment” or “CEE Assessment”) undertaken by the Cities Alliance and UCLG-ASPAC found Pakistan at the bottom of the 20 Asia and Pacific countries covered (UCLG 2019:27; UCLG-ASPAC and Cities Alliance 2018). The GOLD V report in 2019 reported a lack of local government representation in SDG coordinating bodies, weak vertical and horizontal coordination mechanisms, and “decision-making processes that are markedly top-down [and] hamper sub-national prioritization.” (UCLG 2019:38) Furthermore, local governments had been included in the preparation of the 2019 VNR “only to a rather limited extent” (GTF 2019:26).

Using the four elements of an enabling framework for localizing SDGs as discussed in Chapter 6 (i.e., legal mandates of local governments, participation in policy arenas, suitable planning and budgeting systems, effective data, and M&E systems), the overall conclusion is that the current enabling environment is rather weak:

- The legal mandates for service delivery are not well defined in the local government acts of the provinces; local autonomy to implement functions based on local needs and priorities is rather limited. Overall, the sector institutions of the provinces dominate the field. Institutional arrangements such as the local development authorities or specialized service agencies for transport, water, and sanitation (which are controlled by the provinces) further curtail the service delivery role of local governments and thus their influence on the achievement of SDG-related service standards.
- Participation in policy arenas that determine policies and strategies for the SDGs is rather limited (see UCLG 2019); the current absence of elected representatives from the local tiers effectively silences the political voice of the local level and creates legitimacy constraints for office bearers of the existing local council associations.
- Only KP has introduced a proper system of fiscal decentralization with its PFC Award of 2017; the other provinces have lagged in establishing a solid and sustainable system for local government financing. Budget autonomy



of local governments is highly restricted. Systems of inclusive, participatory development planning are largely lacking.<sup>33</sup> Planning processes lack vertical and often horizontal coordination and are strongly influenced by provincial agencies and the members of the provincial and federal assemblies. The absence of elected representatives at the local levels since late 2020 means that channels of communication and interaction with citizens and communities are largely missing.

- The weakness of the planning processes is partly caused by the insufficient quality and limited coverage of available data, notwithstanding the efforts that went into creating data sets or profiles of local government units.

## **12.7 Perception and Involvement of Civil Society Organizations in Subnational Governance**

The legislation on local governments does not stipulate or prescribe any mandatory, formal interaction between local governments and civil society organizations. An effort was made through citizen community boards<sup>34</sup> under the 2001 Local Government Ordinances, but this approach was not adopted again in subsequent legislation.<sup>35</sup>

Local council associations had been established in all four provinces following the 2001 local government reforms and were re-activated following the local government elections in 2015/2016. A national Association for the Development of Local Government (ADLG) was founded in 2016, drawing together the four provincial associations. However, aside from political advocacy, the institutional capacity of these associations is limited. Furthermore, their legitimacy to speak on behalf of local governments as a distinct level of government and administration in the provinces has not yet been fully accepted by the provincial governments. The current absence of elected local representatives exacerbates this situation as the office bearers of the associations are regarded as having lost their seats (and therefor their public role).

Unlike in other countries examined in this publication (such as Cambodia), civil society involvement in local government affairs, and in general the popular demand for functioning and effective local governments, has been rather half-hearted. Perhaps the fact that historically local governments have been associated with military regimes has contributed to this attitude.<sup>36</sup> In any case, it is striking that the issue of local government hardly plays a role in the political competition; party manifestos for general elections deal with the issue mostly in a superficial manner (Khan, A. 2018).

## **12.8 External Support by Development Partners and Coordination Mechanisms**

External support for local governance reforms after 2013 has weakened significantly compared with the external support provided to Musharraf's 2001

reforms. Still, bilateral agencies, as well as multilateral agencies such as the Asian Development Bank (ADB), UNDP and the World Bank, continue to provide technical and financial support to the provinces on local governance issues.

ADB supports urban transport networks in Peshawar and in Karachi, and invests in urban water and sanitation infrastructure. ADB allocated USD 470 million for water and other urban services projects during 2019–2020. One of these is the Punjab Intermediate Cities Improvement Investment Project for improving municipal service delivery in the cities of Sahiwal and Sialkot, and building capacity of the local governments. ADB is also supporting the Punjab Local Government and Community Development Department in establishing a new training academy for local governments. This includes financing of the facilities and technical support to develop training curricula and partnership agreements with other training institutes.

The United Kingdom (UK) is funding a Subnational Governance Programme (SNG II) in KP and Punjab, which includes support to selected local government units of both provinces. The European Union (EU) is funding a Community-Driven Local Development Programme (CDLD) in KP, which works with village and neighborhood councils of selected districts, and supports a Public Financial Management Programme in Balochistan. Another initiative is the Commonwealth Local Government Forum's project, funded by the EU's program for Strengthening the Associations of Local Governments and their Members for Enhanced Governance and Effective Development Outcomes in Pakistan (2017–2020). The project aims to strengthen and build the capacity of local councils' associations at the national and provincial levels. It will also pilot the integration of a territorial approach to local development (TALD) into the planning processes of selected local governments.

The UNDP's Decentralization, Human Rights and Local Governance Project started in 2013 and aims to strengthen participatory federalism and decentralization against the backdrop of the 18th Amendment to the Constitution. It assists the provinces in developing institutional mechanisms to strengthen effective service delivery and contribute to achieving the SDGs.

Germany has been supporting local governance issues in KP for nearly a decade and extended such support to Punjab in 2017. The Support to Local Governance Programme (LoGo) works with both provinces on capacity development issues, the improvement of the political and legal framework for local governments, and the increase of local revenues. In KP, the FATA Development Programme (FDP) supports the establishment of local government structures in the seven tribal districts which were merged with KP in 2018.

The United States Agency for International Development (USAID) is said to be preparing new support initiatives for selected local governments in Southern Punjab and will continue its support to local government reforms in KP.

At present, none of the four provinces has established a formal mechanism to coordinate external support from development partners for their decentralization and local government systems. In most cases, such coordination and exchanges take place in an ad hoc manner. Following the 2019 amendments of its Local

Government Act, the Local Government Department of KP established a Local Government Reform Unit which coordinated the reform process (including the integration of the former FATA into the province) and harmonized development partner support for this process.<sup>37</sup> In July 2019 the Punjab Local Government Department invited development partners to a presentation of its transition agenda and to discuss existing or planned support initiatives by the international community. However, no formal mechanism has been put in place so far to continue this kind of government-development partner dialogue.

## **12.9 Current Challenges for Subnational Governments**

One of the key challenges for local governments in Pakistan has been the frequent modification of the local government systems which consistently undermines systematic learning and incremental improvements of such systems. Despite the political rhetoric, local autonomy is limited by the legal and fiscal arrangements, and by the dominating influence of the provincial governments. Funding for local governments has slowly improved with the 2010 constitutional amendment, but often transfers from the provinces to local governments have been insufficient and irregular.

As seen again after 2019, provincial governments have tended to delay local elections once the tenure of elected local councilors has ended, thus repeatedly creating periods without democratically legitimized local representatives. This is another factor hampering continuous and consistent learning and capacity development for the political domain of local governments. Providing national or provincial legislators with dedicated development funds to be spent in their own election districts or constituencies blurs the functional responsibilities between levels of government in the state. It also undermines the potential role (and therefore the legitimacy) of local governments as the political influence of such assembly members curtail independent local decision-making.

Provincial systems for building capacity at the local level—both for public servants and for elected representatives—have been weak: often, they are under-resourced (with irregular budget allocations and a lack of professional, permanent faculty), lack regular learning calendars, and rely to a large extent on classical class-room training.<sup>38</sup> At the same time, the political parties have failed to establish internal systems and procedures for building the capacity of their councilors at the local level.

The example of Pakistan illustrates that constitutional protection of local government as a tier of government is a necessary, but not always sufficient, pre-condition for having well-performing local bodies. The weakness of the 18th Constitutional Amendment is that it does not set minimum requirements for the structures, composition, functions, resources, and procedures of local governments; this allows provincial governments to create rather weak local government systems while still fulfilling the constitutional requirement.

A system of reserved seats for women and other disadvantaged groups helps to ensure political representation in elected bodies, but is not sufficient to ensure

adequate involvement in deliberative processes and policy-making, and does not ensure the emergence of gender-sensitive policies. Factors favoring a commitment of public policies to gender equity include “an active and united women’s movement, a gender-sensitive social and cultural environment, the desire or potential for change among existing government actors, women’s involvement in changing the political status quo, and the support from male government actors” (Brody 2009:42). A continued and increased focus on gendered capacity building of women and men at the institution, organizational, and individual levels is still required. As pointed out in Chapter 1, local government systems need dedicated instruments such as gender-responsive budgeting and mandatory involvement of women in local planning and budgeting processes to advance gender equality. As representative local government systems fall victim to the overall political situation of the country, women and minority groups have currently even fewer opportunities to make their voices heard at subnational levels.

The COVID-19 pandemic hit Pakistan in earnest during March 2020, resulting in the closure of national borders, suspension of international flights, imposition of restrictions on public gatherings, shut-down of economic activities, and closing of educational facilities. As of March 2022, the country recorded approx. 1.5 million infections and close to 31,200 deaths.<sup>39</sup>

The federal government responded to the economic effects of the pandemic with fiscal policy measures, including a 1.2 trillion PKP economic relief package. The national Benazir Income Support Programme (BISP) was re-programmed as the Ehsaas Emergency Cash Programme to provide one-time cash transfers to 12 million families. The health budget was more than doubled in the FY 2020/2021 as compared to the previous fiscal year. Additional relief packages were introduced by the provincial governments, which followed the federal lead and increased their health budgets as well. Unfortunately, because of the precarious economic and fiscal situation of the country, these expenditures were mostly “financed by reducing development expenditures, which may further dampen economic growth and increase unemployment” (Ashfaq and Bashir 2021:74).

In Pakistan’s multi-level governance system, the provinces carried the majority of responsibilities for handling the crisis, reflecting their functional jurisdiction (for instance, for health and education) following the 18th Amendment in 2010. There was scarce and infrequent coordination between the federal and the provincial levels, and the constitutional body meant to ensure such intergovernmental communication (and coordination), the Council of Common Interests, does not seem to have played a major (or any) role in handling the crisis.<sup>40</sup> The provinces used a variety of legal instruments, such as the West Pakistan Epidemic Diseases Act 1958 (Balochistan), the KP Epidemic Control and Emergency Relief Act 2020 (KP), the Punjab Infectious Diseases (Prevention and Control) Ordinance 2020 (Punjab), and the Sindh COVID-19 Emergency Relief Ordinance 2020 (Sindh) for enforcing restrictions and curtailing individual and economic activities.

The pandemic started to hit Pakistan at a time when in three of the four provinces' (Balochistan, KP, and Punjab) elected local representatives and elected mayors no longer existed, their term having expired (Balochistan and KP) or been terminated prematurely (Punjab).<sup>41</sup> As a result, "the local government tier has been entirely absent from plans for responding to COVID-19" (Kureshi 2020:5). Whatever local action was required was conducted either through the state-appointed administrators of the local government units, or through the deconcentrated provincial administration with its focus on the deputy commissioner at the district level. Observers have regretted the absence of elected representatives at the various tiers of the local government systems as this robbed the federal and provincial authorities of a crucial channel for communication with communities. It made it difficult to obtain accurate and in-time knowledge and data on the crisis as it unfolded at the local level, and to launch a more effective local execution of relief measures (see Kiani & Malik 2020; Kureshi 2020:5). The relationship between the federal and the provincial level, in particular, has come under scrutiny, with observers noting "significant intergovernmental tension, political mudslinging and policy disfunction that undermined a coordinated response" (Kureshi 2020:1).

In *Punjab*, the provincial government has enforced the Punjab Infectious Diseases (Prevention and Control) Ordinance 2002 as the legal basis for combating the pandemic. Local elections were delayed for another 9 months.<sup>42</sup> Local government units and the eight existing waste management companies at the divisional level were asked to focus on disinfection and hygiene activities, on ensuring the provision of essential municipal services in affected and lockdown areas and isolation facilities, and on creating awareness of social distancing and other precautionary measures. The provincial government also authorized local governments to divert all their resources to cope with the pandemic.<sup>43</sup> The provincial government has realized that there are weaknesses in the legal and institutional arrangements for handling such a crisis. The provincial strategy for the post COVID-19 recovery phase mentions, among others, the need to elaborate the role of local governments in the overall social protection framework, to assess the efficiency and efficacy of risk and disaster preparedness in local government rules and regulations, and to introduce a local government mandate for emergency response in the 2019 Punjab LGA (Planning and Development Board Punjab 2020).

In *Sindh*, the provincial government established a PKR 3 billion Coronavirus Emergency Fund (CEF) and curtailed non-development government spending. The 2020/2021 budget proposal features a PKR 34.2 billion Pro Poor Social Protection Initiative, including PKR 20 billion for cash transfers (Government of Sindh 2020).

Similarly, *Balochistan* has cut back on non-development funding and adopted a "multipronged fiscal strategy" with a focus on revenue generation through economic growth and broadening of the tax base, and providing relief and economic stimulus to the business sector (Government of Balochistan 2020).

KP released emergency funds to the provincial health department in early March, established rapid response units at the district level, and introduced screening procedures at border posts and at the Peshawar international airport.<sup>44</sup> The government estimated that an economic lockdown of up to 45 days would result in the loss of approximately 1.3 million jobs, and that the pandemic might cost the equivalent of 2% of the province's GDP (Planning and Development Department 2020).

Responding to and handling the pandemic has thrown open several issues for Pakistan's multi-level governance system which need to be addressed in the coming years:

- There is the need to align sector legislation (for example, on emergencies and public health issues) and legislation for local governments, especially regarding mandates and responsibilities and their nature as obligatory or discretionary functions.
- The functional architecture for local governments should include some notion of a general mandate<sup>45</sup> for local governments, allowing them to react swiftly in cases of emergencies without the need to obtain permission from higher levels of government.
- Rules and regulations for financial management at the local level need to have options for a more flexible approach in an emergency.
- Unless local governments have better control over their human and financial resources, public services will continue to be dominated by provincial agencies possessing larger budget resources, political influence, and larger and better-qualified human resources.

## Notes

- 1 Pakistan being a federal state, the term "subnational government" is used here synonymously with "local government."
- 2 For an overview of the local government systems in Pakistan, see, for instance, Islam (2015), Myerson (2014), Shafqat (2014); Cheema et al. (2006); International Crisis Group (2004). On the Devolution Plan of 2000/2001, see NRB (2002).
- 3 The one exception relates to elections: the 2017 Federal Election Act applies to local government elections as well, and the Election Commission of Pakistan (ECP) is the sole national body in charge of conducting local elections by virtue of Article 140(2). See Rana (2020) for a discussion of the changes in federal-provincial jurisdiction.
- 4 The four provinces—Balochistan, Khyber Pakhtunkhwa (KP), Punjab, and Sindh—are the federating units represented in the Council of Common Interest, an intergovernmental body to discuss policies and strategies between the federal and provincial levels. They do not have constitutions of their own but function within the framework of the Constitution of Pakistan.
- 5 For instance, the local government system of KP after 2013 did not make a distinction between rural and urban local governments, whereas the 2013 Punjab LGA had district councils in the rural areas, and various types of local government units in the urban areas.

- 6 These districts had been grouped as Federally Administered Tribal Areas (FATA) with their own and very specific governance structures.
- 7 However, the district level remains an important level within the public administration system, with vital coordination functions across its local government units. It is now a purely deconcentrated level of administration.
- 8 The *tehsil* level is the middle tier of the local government system and is sandwiched between the village/neighborhood level (or, earlier, the Union Council level), and the district level. Traditionally, it focused on municipal services, such as roads, water and sanitation, or land use planning. Most sector departments have their offices at district level, and not at the *tehsil* level.
- 9 As a result, there will be only two forms of local elections: for the village and neighborhood councils, and for the *tehsil* mayor who can easily become the dominating figure in *tehsil* politics. A *tehsil* council consisting of the chairpersons from the VC/NC level will have less power to control the *tehsil* mayor and to hold the incumbent to account.
- 10 “Panchayat” is the traditional name for community-based forms of self-government and is still often used across the South Asian subcontinent.
- 11 There are quite a few new and innovative features in the 2019 law which in various areas reflects a conceptual break with established arrangements of the past (see Janjua & Rohdewohld 2019 for details).
- 12 Bashir (2013) identifies the civil bureaucracy as a key player in the public policy process. In the form of the powerful “District Management Group” of Pakistan’s civil service (later renamed “Pakistan Administrative Service”), senior administrators had overwhelmingly rejected the local government reforms introduced by General Musharraf in 2000 and subsequently were instrumental in rolling back powers given to elected local government leaders.
- 13 “First phase of LG polls in Punjab to be held on May 29th; Dawn 17 Feb 2022” ([https://epaper.dawn.com/DetailNews.php?StoryText=17\\_02\\_2022\\_012\\_008](https://epaper.dawn.com/DetailNews.php?StoryText=17_02_2022_012_008)).
- 14 For instance, in KP Section 31 of the 2020 KP Epidemic Control and Emergency Relief Act (a response to the COVID-19 pandemic) allowed the extension of the transition phase foreseen under the 2019 amendment of the KP-LGA 2013 for up to two years, i.e., until 2021.
- 15 In reality, this had not happened by the end of 2020. The 2020/2021 budget still allocated the overwhelming share of local government transfers to these district authorities (Government of the Punjab 2020). In early 2021, an ordinance approved by the provincial government re-introduced the district authorities in the form of “joint authorities.”
- 16 See Janjua and Rohdewohld 2020 for a detailed discussion of the functional assignment architecture of Punjab’s 2013 and 2019 local government legislation.
- 17 The 2021 Ordinance reduced the number of village *panchayats*/neighborhood councils in Punjab to approx. 6,000. If sustained, this change would reduce the overall number of local government units in the four provinces to approx. 24,500.
- 18 PUGF officials are posted only at the local government level but can be transferred between local government units within the province.
- 19 Data from Local Council Board (2018).
- 20 Data from Local Government and Community Development Department (2018).
- 21 See Taj and Abdullah 2017 for a review of KP’s fiscal architecture for the devolution reforms of 2001 and following the 18th Amendment.
- 22 The budget includes substantial expenditures for solid waste management and water services, which in Sindh are not devolved to local governments.



- 23 The nomenclature differs slightly between the provinces: in *KP*, the official name is Local Government, Elections and Rural Development Department; in *Punjab*: Local Government and Community Development Department; in *Sindh*: Local Government, Housing & Town Planning Department; in *Balochistan*: Local Government and Rural Development Department.
- 24 In Pakistan, the planning departments at federal and provincial level play a key role in the formulation and implementation of national and provincial SDG strategies and programs.
- 25 Balochistan has established a Local Councils Grants Committee. There is a proposal to establish a Finance Commission like other provinces through an amendment in the Balochistan local government act. For a brief historical overview of the PFC in Punjab, see CDPI (2018).
- 26 For instance, the Local Government Commission of Punjab has eleven members including the minister in charge of the Local Government Department, four members of the Provincial Assembly to be appointed equally by the coalition majority and the opposition, the Secretary Local Government and Community Development, the Secretary Law and Parliamentary Affairs Department, and four expert members, including at least one woman (see Section 237ff of the 2019 PLGA).
- 27 As of July 2020, there were approx. 40 such bodies in the four provinces, such as development authorities, parks and horticulture authorities, local area authorities, and the Karachi Water and Sewerage Board (Source: Author's compilation from various sources).
- 28 See UNDP/GIZ (2019)
- 29 Shifting government and DP priorities due to the COVID-19 pandemic have meant that such efforts have been put on hold for the time being (2021).
- 30 For instance, in 2019 the Punjab Provincial Government created an interdepartmental Transition Committee to coordinate the shift from the 2013 local government system to the new 2019 system.
- 31 Such as poverty reduction, or empowerment of women.
- 32 These include climate change mitigation and conservation of marine resources.
- 33 KP was the only province which had officially introduced a system of development planning in 2015 (Planning and Development Department KP 2015); this system was specified in more detail for the *tehsil* and district levels in 2018 (LGE&RDD 2018; LGE&RDD n.d). The province piloted methods and procedures for participatory and vertically integrated development planning from the village and neighborhood level up to the district level.
- 34 Citizen community boards were groups of citizens who could apply for funds from the local government budget for small-scale community development projects.
- 35 In its 2019 LGA, Punjab introduced the modality of "community initiatives" which requires each local government to allocate at least 5% of its funds to support activities that residents can propose and implemented directly through their local neighborhood council or village *panchayat*.
- 36 Shafqat points to the fact that "local government came to be identified with the military regimes as an instrument of delegitimizing the party system and provincial autonomy, while trivialising political processes and power sharing at multiple levels" (Shafqat 2014:5).
- 37 However, the LGRU was discontinued in late 2020.
- 38 It must be noted, however, that the COVID-19 pandemic has triggered increased the interest of at least the KP and the Punjab provincial governments in digital formats of learning.
- 39 See <https://www.worldometers.info/coronavirus/country/pakistan/> (accessed 1-3-2022).



- 40 Instead, a national Command and Control Centre was created in late March 2020 to coordinate between the federal and provincial level.
- 41 In Sindh, the terms expired in August 2020.
- 42 Punjab Local Government (Amendment) Ordinance 2020 of 27 March 2020.
- 43 Notification of the Local Government and Community Development Department No. ASA(Corona)/001 dated 21 March 2020. The notification declared the “likely spread of COVID-19 ... a circumstance of emergency” and listed the legal stipulations of the LGA for dealing with such emergency situations.
- 44 See <https://tribune.com.pk/story/2168937/1-k-p-govt-releases-rs100m-funds-amid-coronavirus-scare> (accessed 9-9-2020).
- 45 The “general mandate” has been defined as “the responsibility [of local authorities] to do whatever is in their power to improve the welfare of their communities, as long [as] they operate within national law, and the only limitation being the resources available to them” (Romeo 2013:68). See also Ferrazzi and Rohdewohld (2017) for an extensive discussion of the model of “general mandate” versus the “list model” of local government functions.

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# 13 Conclusions

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## 13.1 Introduction

This publication explores how two major policy streams in Asia and the Pacific—the trend toward more decentralized systems of multi-level governance and the momentum toward localizing the Sustainable Development Goals (SDGs)—converge and can be mutually enforcing. As we have argued earlier, the political, legal, and fiscal framework for subnational governments (SNGs) provides (or prevents) the enabling environment which allows SNGs to make a meaningful contribution to the national SDG priorities, partake in decisions on national agendas, and realize the vision of the 2030 Agenda as a “whole of society” and “whole of government” approach. The four dimensions of the enabling environment as used in this publication (clearly defined functions and responsibilities of SNGs, SNG participation in national-level policy arenas, tailored planning and budgeting systems, and localized monitoring and evaluation [M&E] and data collection systems: see Figure 6.1) need to be anchored firmly in the legal, fiscal, and institutional arrangements of a country’s system across tiers of government and administration.

Previous chapters have illustrated the complexities of designing and implementing decentralization and local governance (DLG) reforms in Asia and the Pacific (Chapters 1–4). Inevitably, such reforms have context-specific points of departure and therefore individual and unique trajectories. As DLG reforms are multidimensional and multi-sectoral, and often part of much wider reform processes in public management, their effectiveness and impact are often hard to measure (Chapter 5); reliable forecasts (“blueprints”) of what will work and what won’t are therefore difficult to come by. Still, the accumulated global knowledge after more than four decades of DLG reforms does indicate several essential building blocks that need to be addressed in each reform. These include legal and electoral systems, fiscal transfers and revenue arrangements, civil service arrangements, and supervisory and monitoring systems (see Chapters 1 and 7). Failure to address these challenges will result in sub-optimal outcomes (with inconsistencies and blockages between reform elements), reform deadlocks, or “partial decentralization” (World Bank 2019).

The country chapters on Cambodia, Indonesia, Mongolia, Nepal, and Pakistan illustrate how countries envision their political and administrative legacy as one of creating multi-tier systems to address the social, ecological, and economic development needs of their societies. The variety of constitutional and legal frameworks

for SNGs, the allocation of functions and responsibilities between tiers of government, the arrangements of revenue and expenditure assignments and fiscal transfer systems, the suitability of central government policies and intergovernmental coordination mechanisms for the subnational level, the degree of SNG responsiveness, the effectiveness of accountability mechanisms in their various forms and manifestations, the involvement of civil society to engage with subnational political and administrative institutions—all these factors are influenced by such legacies and by the way policymakers extrapolate legacies into pathways for the future. They are the underlying factors which determine the functionality and performance of SNGs—both in normal times and in times of crisis. They shape the extent to which SNGs contribute to the achievement of the SDGs, and the means by which they do so.

### **13.2 Localizing the Sustainable Development Goals Discourse**

The 2030 Agenda and its 17 SDGs, along with other global agendas defining development efforts around the globe (see Introduction), are critical in giving a clear focus to the actions of government at all levels. The institutional arrangements for formulating, implementing, and assessing development efforts in the context of national and subnational SDG agendas provide interfaces which bring together the public sector, the private sector, and civil society. These interfaces (or “policy arenas” as we have called them here) allow all sectors to debate priorities and requirements jointly, and—if all works well—to accomplish what has been called “co-creation” (Bilsky et al. 2021).

There is a consensus that SNGs need to take an active role in pursuing these interconnected global agendas. The global discourse about localizing the SDGs has become stronger and more prominent since the 2030 Agenda was endorsed by the United Nations General Assembly in 2015. The series of reports which the Global Task Force of Local and Regional Governments (GTF) has submitted to the annual High-level Political Forum on Sustainable Development (HLPF) since 2016 illustrate<sup>1</sup> how SNGs have been using the available political space to contribute to national SDG strategies. Without doubt, there are substantial challenges for the localization of SDGs, including weak institutions and systems of governance, insufficient coherence of policies, and a lack of standardized tracking and monitoring systems (SEI 2021).<sup>2</sup>

One of the most visible changes over the years has been the growth of voluntary local reviews (VLRs) and voluntary subnational reviews (VSRs). The total number of VLRs has doubled, from less than 50 in 2020 to more than 100 in June 2021 (Bilsky et al. 2021:5). By mid-2021 there were 15 VSRs from 14 countries, representing a total of 16,000 SNGs (GTF 2021:14). These reports are extremely important, not only for mainstreaming the SDGs in the plans and budgets of subnational territories, communities, and cities (P4R 2021), but also for strengthening the visibility and voice of SNGs in the global debate on SDGs. They are part of the global movement to make the SDGs part and parcel of the life of communities and to involve stakeholders from all walks of life, be they public or private, governmental or non-governmental, profit or non-profit oriented. They therefore



reflect the nature of the 2030 Agenda as a “whole of society” approach. While the formats, processes of formulation, and scope of thematic coverage of VLRs can differ substantially, guidelines and manuals provided by the international community reflect a growing experience with VLRs and can support such local initiatives in the coming years (UCLG and UN Habitat 2021, UN ESCAP 2020).

The treatment of the localizing SDGs theme in the VNRs submitted to the annual HLPF, and the increasing number of VLRs and VSRs, document the growing significance of subnational entities in the dialogue on sustainable social and economic development. However, such progress is not uniform across regions, nor is it linear. As shown in Chapter 6, the degree of SNG participation and involvement in the preparation of VNRs has improved (with differences across regions), but the presence of SNGs and/or their associations in national SDG steering structures has decreased compared to previous years (GTF 2021; see also P4R 2021). Consistent efforts are still required to ensure the participation of SNGs in the VNR formulation process and their presence in the institutional arrangements for formulating and implementing national SDG strategies.

We agree with the analysis by Bilsky et al. that the “SDG localization movement is ... showing an increasing polysemy of meanings and modalities” (Bilsky et al. 2021:2); indeed, the meaning of “SDG localization” needs to be re-assessed and ascertained periodically in view of shifting global and national policy contexts. The GTF defines SDG localization as “a process of taking into account subnational contexts in the achievement of the 2030 Agenda, from the setting of goals and targets, to determining the means of implementation and using indicators to measure and monitor progress” (GTF 2016:6). This is a solid starting point; in this publication we have sought to further enhance understanding by focusing on the four key elements of the required enabling environment.

### 13.3 COVID-19 Implications and Lessons Learned for the Recovery

The 2021 report by the United Nations Economic and Social Commission for Asia and the Pacific (UN ESCAP) illustrates the wide range of social and economic implications of the global COVID-19 pandemic. These include direct and indirect impacts on health and the accessibility of health services, increases in extreme poverty, significant increases in the rates of multi-dimensional poverty, and significant losses of labor income and livelihood opportunities (UN ESCAP 2021:29ff). The pandemic has rolled back many of the development successes which countries in the Asia and the Pacific have achieved since 2015, as demonstrated by a comparative analysis of the VNRs submitted in 2021 (P4R 2021:17–21).

The pandemic has implications for governance and public management issues which, in turn, will have a bearing on the topics discussed in this publication. One serious implication is the effect of the pandemic on public finances, as it contributes significantly into a shrinking fiscal space for SNGs (OECD 2020, UNCDF 2020, UCLG et al. 2021a). The negative effect on data collection and SDG measurement<sup>3</sup> is another concern, as it will reduce opportunities to improve the monitoring systems needed to provide information on subnational and national SDG

progress. A third effect is the emerging understanding of the need to examine existing arrangements between levels of government and to create (or strengthen) patterns of communication and coordination across tiers of government, which increase the resilience of multi-level governance systems (see Chapter 6).

A key question is therefore what “building back better” (a term often used to describe the strategy for recovery after COVID-19) will mean for SNGs and their involvement in national SDG agendas. We want to make the case for the following actions:

- *Further fine-tune the allocation of functions and responsibilities* between levels of government in the legal framework, especially regarding public services which are essential for the wellbeing of citizens and feature prominently in the SDGs (such as health, water and sanitation, social security, and local economic development promoting jobs and growth).
- *Improve the legal framework for SNGs* to ensure that the existing arrangements nurture and promote responsiveness of subnational institutions and create and protect their autonomy to take decisions in line with local needs and priorities.<sup>4</sup>
- *Strengthen the role of SNGs and their associations in national policy arenas* dealing with the SDG agenda; this includes full involvement in the preparation of VNRs and the inclusion of subnational perspectives in these documents.
- *Protect and widen the fiscal space of SNGs* in view of the critical condition of public finances; fiscal decentralization systems need to be improved through grants and tax reforms, optimization and innovation (e.g., land-value capture instruments), and equalization mechanisms. Widening the fiscal space requires the extension and use of new instruments for financing of subnational expenditures. Higher domestic resource mobilization and the mobilization of land-related tax revenue are essential, especially for urban local governments (World Bank 2019). While public resources could be increased through these measures, such public resources alone are not sufficient to finance the achievement of the SDGs. Partnerships with private sector and philanthropic organizations need to be proactively explored.<sup>5</sup>
- *Improve multi-level governance arrangements in disaster management*, which have come under scrutiny as responses to the pandemic have shown weaknesses in existing arrangements.<sup>6</sup> The concept of “multi-level emergency governance” (UCLG et al. 2021b) acknowledges that complex emergencies need to be addressed by all levels of government jointly and in a coordinated manner. Decentralization, with “access to finance and fully funded mandates where new responsibilities for service delivery and policy making are appropriately resourced” is seen as a precondition for “strategic emergency response functions” of cities and regional governments (ibid.:7).
- *Invest in the improvement of statistical systems* at national and subnational levels and combine government-based conventional systems with non-conventional data collection methods, such as those led by civil society or community organizations. State-run data systems often cannot collect data sets that are comprehensively disaggregated and granular. However, community-based monitoring systems have been proven to be capable of doing so and can thereby contribute to voluntary national and local reviews and



enrich policy analysis. By combining data collected through conventional and non-conventional systems, the issue of inadequate data in monitoring SDGs could be addressed to some extent (Carrasco 2021).

A remarkable feature of the localizing SDG debate has been the creation and mobilization of many regional and global networks and platforms dealing with the topic. These networks and platforms facilitate exchange and mutual learning, provide guidelines and manuals, document lessons learned, and engage in policy advocacy at national, regional, and global levels (see Box 13.1). The localizing SDGs debate is a good example for the diffusion and dissemination of policy ideas and policy innovations by “agents of policy transfer”<sup>7</sup> across regions including, for example, regional and global local government associations such as United Cities and Local Governments (UCLG) or its regional Asia-Pacific chapter, knowledge institutions such as universities and research institutes, and development partners such as the Asian Development Bank (ADB) and the United Nations Development Programme (UNDP).

#### **BOX 13.1 GLOBAL PLATFORMS AND NETWORKS ON LOCALIZING SDGS**

##### **The Global Task Force of Local and Regional Governments (GTF) (<https://www.global-taskforce.org>)**

The GTF was created in 2012 to strengthen joint advocacy and coordination of international policy processes among subnational governments (SNGs). As an international network of SNGs, the GTF focuses on developing tools to help SNGs contribute to achieving the SDGs and on promoting involvement of local and regional governments in VNRs.

##### **Local2030 (<https://local2030.org>)**

Local2030 provides a one-stop shop on Sustainable Development Goals (SDG) localization resources and tools for stakeholders. It links local and regional governments and their associations, national governments, businesses, community-based organizations, and other local actors. It supports sharing solutions and best practices. A core feature of Local2030 is the toolbox, which offers mechanisms and instruments that support the development, implementation, monitoring, and review of local SDG actions.

##### **SDG Cities (<https://www.sdg-cities.org/>)**

SDG Cities is a global initiative of UN Habitat in collaboration with a wide range of other actors, such as governments, civil society organizations, foundations, academic institutions, and the private sector. It plans to provide cities with “an online bank of tools for data collection and analysis, institutional capacity development and project preparation and financial matchmaking,” support hubs “that provide technical backstopping support to participating cities at each stage of the SDG City cycle,” “strategic partnerships with cities and investors,” and SDG Cities Certification as a way to recognize the achievement of cities.

Source: Modified from Oosterhof (2020)

### 13.4 The Role of the Asian Development Bank and Other Development Partners

“Localization of the SDGs” has become a crucial and visible theme in international development cooperation, with most bilateral and multilateral development agencies funding projects and programs using the term. Such support has been and remains important (SEI 2021). It is obvious that further enhancement of the localizing SDG agenda—in the context of formulating and implementing sustainable recovery strategies following the COVID-19 pandemic—will require the dedicated support of development partners such as ADB.

Chapter 7 discusses the role of development partners in supporting DLG reforms. It emphasizes that, due to the multi-faceted nature of decentralization, there are numerous entry points and potential focus areas available for support. Key requirements mentioned for development partner support are: (i) holistic support addressing the wide spectrum of building blocks and including both the national and the subnational level, (ii) alignment with country priorities and harmonization between development partners, (iii) support to enhance country M&E systems, and (vi) support of capacity development that includes the whole variety of stakeholders, is job-oriented and long-term, and is embedded in the country’s institutional landscape.

As pointed out earlier, ADB’s *Strategy 2030* (ADB 2018a) provides the conceptual basis for aligning ADB operations with the 2030 Agenda and the SDGs. Finance, knowledge, and partnerships are singled out as the value-additions ADB can provide to the SDG efforts of its developing member countries (DMCs). Key principles in the approach are the use of a country-focused approach, promotion of innovative technology, and the emphasis on integrated solutions which combine expertise across a range of sectors and themes and through a mix of public and private sector operations. Alignment with the SDGs is reflected in the Operational Priorities of *Strategy 2030*<sup>8</sup> (see Figure 13.1) and informs the priorities of thematic, regional, and country-based operations.

ADB has provided support to localizing SDG efforts in the region by building partnerships, generating and sharing knowledge, and engaging with national and subnational stakeholders in its DMCs. ADB’s Vice-President for Knowledge Management and Sustainable Development, Dr. Bambang Susantono, has called localization of the SDGs a “transformative approach for accelerating implementation of the goals” (Susantono 2021). ADB support involves capacity development for representatives of national and regional local government associations, support for the formulation of voluntary local reports (e.g., Jakarta), the preparation of so-called country snapshots on localizing the SDGs which complement existing country-level SDG Snapshots,<sup>9</sup> the preparation of knowledge products (e.g., ADB 2018b), the implementation of an e-learning course, and the organization of knowledge events in cooperation with regional or global partners (such as the UCLG Asian-Pacific chapter, the UNDP or the Development Partners Network on Decentralization and Local Governance/DeLoG).



Figure 13.1 Aligning ADB Operations with the Sustainable Development Goals.

Source: ADB 2021a.

Regarding the future advancement of the localizing SDG agenda, four thematic areas merit further mentioning: digitalization, regional cooperation, data systems, and domestic resource mobilization.

The 2021 report *Responding to the COVID-19 Pandemic: Leaving No Country Behind* by the Asia-Pacific SDG Partnership (UN/ADB/UNDP 2021) highlighted the ways in which digital technology has helped contain and manage the pandemic. Examples include digital contact tracing, the use of telemedicine, virtual learning in the education sector, work-from-home arrangements, and electronic payment systems which allowed governments to make swift relief payments to the target beneficiaries. There are still large differences in the quality and quantity of IT and communication infrastructure throughout the Asia and Pacific region, and the risks of increasing the digital divide—within states and societies and across countries—are real. Still, there is no doubt about the potential benefits and opportunities that digitalization of services and communication can bring to business and citizens. Several SDGs feature targets related to information and communication technology (ICT), and the achievement of

nearly SDG 40 targets is conditional on ICT access (*ibid.*:17). In the context of our discussion on localizing SDGs, several aspects of digitalization are pertinent:

- (i) The use of web-based information sharing and learning platforms allows faster and demand-based dissemination of experiences and lessons learned; it also gives significantly more opportunities for peer-to-peer interaction and therefore for “learning beyond training.”
- (ii) The use of digital tools for accountability measures (such as complaint systems) and for creating greater transparency (e.g., on budget spending) allows local communities to engage closely with elected representatives and local officials, thus limiting the risk of elite capture and helping to improve local services. Digital tools can also accelerate participation in decision-making and in setting priorities for local SDG agendas.
- (iii) Like the private sector, public administration can increase the efficiency, reliability, and speed of internal processes when using IT-based processes and applications. Tax administration is a good example; digitalization of civic services (such as obtaining birth certificates) also has huge positive impacts.
- (iv) One of the weakest aspects of the SDGs is that the quantity and quality of data for socioeconomic planning, and for measuring progress in socioeconomic development in a localized, gender-disaggregated manner, is often insufficient. The more that data required for public sector decision-making is digitalized, the better the chances to have quick and equal access for planning and monitoring purposes. In multi-level governance systems, vertical communication (and consequently collaboration) can be sped up by having equal and fast access to digitalized information.

While the countries in Asia and the Pacific are bound together by a great number of regional and bilateral agreements and policy platforms, it has been observed that the “main focus of regional cooperation in Asia and the Pacific to date has been on trade and investment” (*ibid.*:36). In the context of advancing the 2030 Agenda and accelerating the achievement of the SDGs, a stronger focus on regional cooperation in “regional public goods” is essential. In general, regional public goods are in the domain of natural resources and the environment, but they can also include human and social development or governance and institutions (*ibid.*:36). Cross-border cooperation and agreement on common standards and protocols are important for enhancing interconnectivity in the region, creating regional solidarity, and finding common ways to meet global challenges such as climate change. In the context of localizing the SDGs, greater regional cooperation should enhance joint platforms for learning and exchange between national policymakers and between subnational officials and elected representatives. It should also enhance sharing of experiences and lessons learned with VLRs, participation of SNGs in the formulation of VNRs, and exchange and collaboration on each of the four enablers discussed throughout this publication.

The need to monitor 17 SDGs and 169 targets has created new and huge demands on national statistical systems (ADB 2019). A primary constraint on the availability of sufficient data is often a lack of resources devoted to the development of statistics. Most countries that submitted a VNR in 2019 voiced the need to improve the availability of data and the statistical system providing such data (P4R 2019). The pandemic affected many national statistics agencies and reduced their ability to collect and process data, such as conducting a population census; many had ceased or substantially downsized field data collection activities (UN ESCAP 2021:48). Enhancing national and subnational data systems therefore needs to remain a crucial area of support by international development partners, with increasing use of non-conventional data collection methods such as those led by civil society or community organizations. As a regional institution, ADB is well placed to facilitate cross-country exchanges on this issue, to provide joint-learning platforms, and to strengthen networks among relevant national agencies.

Countries in the Asia and Pacific region have lower tax-to-GDP ratios than, for instance, the OECD countries.<sup>10</sup> The scissor effect of the pandemic—increased public expenditures (such as for health services, social protection measures, and economic relief packages) versus declining public revenues—makes the mobilization of domestic resources—at both national and subnational levels—even more paramount for the recovery phase than it was before. Expanding the tax base, increasing tax compliance, improving tax administration, simplifying the process of paying taxes, and supporting international tax cooperation are four areas of intervention supporting domestic resource mobilization (ADB 2021b). The potential of SNGs to mobilize local resources depends largely on the existing assignment of revenues. Chapter 2 has shown that, across Asia, only modest revenue sources are normally assigned to SNGs, which therefore depend to a large extent on fiscal transfers from the national government. This will obviously restrict local efforts to mobilize resources. Nevertheless, improving compliance, simplifying tax payments (e.g., through e-payment arrangements), and making local tax administration more efficient are promising avenues for SNGs to increase revenues and widen their fiscal space.

Despite the existing challenges, the 2030 Agenda and its SDGs remain the blueprint for a green, resilient, inclusive, and sustainable recovery in Asia and the Pacific. The active involvement and commitment of SNGs is indispensable; reinforcing their enabling environment—clear assignment of functions, integrated planning and budgeting systems, political participation, and functional data and monitoring systems—remains a crucial task for governments and development partners throughout the region.

## Notes

1 See, e.g., GTF (2016), (2019), (2020), (2021).

2 See also the recent GOLD V report on the localization of global agendas (UCLG 2019).

- 3 See UN-ESCAP (2021:47f) and P4R (2021:48ff) for details.
- 4 One of the misperceptions in the DLG debate is the zero-sum assumption in central–local relations. As the World Bank points out, a good decentralization reform needs a strong and effective central government capable of setting and enforcing rules and protecting integrated markets (World Bank 2019). The plea for local autonomy is therefore always shaped by the imperative to comply with national rules, regulations, and policies.
- 5 For example, in Indonesia, the government has launched SDG Indonesia One, a dedicated financing platform that pools public and private funds for use in SDG-related infrastructure projects. ADB has provided technical advice to the initiative (ADB 2021a:68).
- 6 See the examples of Nepal and Cambodia mentioned in Chapter 6. See also Ferrazzi et al. (2020).
- 7 See Ferrazzi and Rohdewohld 2017:228–235) for a discussion of the concept related to DLG.
- 8 For example, the Operational Plan for Priority 4 (Making Cities More Livable) or the Operational Plan for Priority 6 (Governance and Institutional Capacity).
- 9 For details on these country-level SDG Snapshots, see ADB (2021a).
- 10 17.6% compared to the OECD average of 24.9% (2018 data; see <https://www.adb.org/what-we-do/asia-pacific-tax-hub/about#accordion-0-2>) (accessed 19-11-2021).

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