



# Sequencing Decentralization

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## What Do We Mean by Sequencing?

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- Political, administrative, fiscal
- Sector by sector
- Region by Region/Asymmetric
- With or without an explicit strategy
- Gradually, or “Big Bang”



# Prescription

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- First political decentralization
- Then administrative and expenditure decentralization
- Then revenue decentralization
- Then borrowing
- Devolve according to capacity



# Description

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- Decentralization is almost always unique – driven by politics, history, culture, ethnicity,...
- Depends on where a country is coming from, and where it wants to go
- All types of sequences found around the world
- Implementation often messy, not in clear categories
- Wide variety of outcomes found with similar sequence



# Indonesia Experience

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- *Big Bang* Decentralization
- Strategy still evolving
- Function followed finance. Two separate laws with inconsistencies; hazy expenditure assignment
- No bailout rule, intergovernmental transfers somewhat formula-based, but also no local borrowing (to date), weak accountability
- *Ad hoc* approach to capacity building, though networks and associations show promise
- Administrative details (e.g., financial management system, minimum service standards, etc.) difficult; local wage bill managed well



# South Africa Experience

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- Structured process to prepare change:
  - National Commission,
  - Constitutional changes
  - White Paper
- Finance followed function; local boundaries not given sufficient attention at the outset
- No bailouts, intergovernmental transfers formula-based, borrowing framework (draft bankruptcy provisions and remedies for local failure)
- Much transparency, annual intergovernmental fiscal review
- *Formal* approach to capacity building



# China Experience

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- Decentralization “just happened”
- Function followed finance
- Rural ('79) and urban ('84) reforms devolved tax base
- Intergovernmental fiscal reforms (80) gave strong incentives to grow
- 1994 budget law somewhat clarified expenditure responsibilities
- 1994 tax reforms centralized resources
- No borrowing, except through center



# Options for Sequencing Political Decentralization

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- Elected council
- Elected head of region
- Elected head of key functional bureaus
- Right of recall
- Constitutional position of sub-national government
- Sub-national parties
- Timing of subnational-national elections



# Options for Sequencing Fiscal Decentralization

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- Expenditure assignment
  - Sector by sector
  - Expenditure norms
  - Specialized entities
- Revenue assignment
  - Tax policy
    - Base, Rate, Central Limits on Rates
  - Tax Administration
  - Transfers
    - Earmarked, Block, General, tax sharing
    - Discretionary, rule base funding
- Borrowing rights
  - Source:
    - Specialized institution, Banks, Capital Market, International
  - Limits
    - Discretionary, rule-based, cooperative control, none



# Options for Sequencing Administrative Decentralization

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- Functional
  - Function by function
  - Ultra Vires or Intra Vires
- Regulatory discretion
  - Ex-ante supervision, ex-post supervision, no supervision
  - Within centrally set limits or not
- Organizational design
- Civil service
  - Unity
    - One civil service, central and regional service, each region own service, central secondment
    - Sectoral personnel (Health, education) and core administrative service
  - Formation
    - Center determines limits per region, no limits
  - Conditions
    - Pay, regional supplements, pension
  - Performance management



## Considerations for choosing sequence

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- Accountability/efficiency
- Fiscal stability at center
- Incentives for local revenue mobilization
- Service continuity
- Administrative difficulty
- Irreversibility
- Inequalities among regions
- Political costs
- Unity of the country



# A scoresheet for sequencing

## **Fiscal Decentralization**

accountability	efficiency	Fiscal stability	Incentives for revenues	Service continuity	Administrative difficulty	Irreversibility	Political costs	Unity
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### Expenditure assignment

*Sector by sector*

*Expenditure norms*

*Specialized subnational entities*

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### Revenue assignment

#### **Tax policy**

*Base*

*Rate*

*Central limits*

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#### **Tax Administration**

#### **Transfers**

*Earmarked*

*Block*

*Tax Sharing*

*General Grant*

*Discretionary*

*Rule-based*

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### Borrowing rights

#### **Source:**

*Specialized institution*

*Banks*

*Capital Market*

*International*

#### **Limits**

*Discretionary*

*Rule-based*

*Cooperative control*

*None*



## Rules of thumb

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- Start with a champion, a strategy and monitoring capability
- Finance follows function
- Impose a hard budget constraint
- Match responsibility with accountability
- Build local capacity while delegating responsibility and financing
- Create interest groups in decentralization