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Incorporating Administration and Governance in Designing and Implementing Fiscal Decentralization: Missed Opportunities and Future Possibilities

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Incorporating Administration and Governance in Designing and Implementing Fiscal Decentralization: Missed Opportunities and Future Possibilities

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Abstract

Public sector decentralization has been a global phenomenon for many years. The fiscal framework is a foundational element of decentralization—without adequate, well-designed and well-utilized resources, decentralization cannot meet its intended objectives. Although fiscal decentralization is necessary to pursue priority goals, it is not sufficient for good performance. The broader intergovernmental framework needs not only to establish the fiscal powers and functions of different levels of government, but also to incorporate or be linked to other policies on public sector structures and processes that support subnational government operations. Failure to capture relationships among administrative, fiscal and political dimensions of decentralization can limit their impact. This chapter focuses on selected aspects of decentralized administration, governance and operations that must work together with fiscal elements for successful and sustainable decentralization. It also advocates for greater balance between the design of decentralization and its strategic implementation, which has received less attention.

Keywords: decentralization, administrative decentralization, political decentralization, governance, subnational accountability, reform implementation

JEL Codes: H11, H7, H74, P42, O2, R5, R51

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1. Introduction: The Weak Integration of Decentralization Research and Practice

Strengthening subnational governments through public sector decentralization has been a global phenomenon for many years, albeit in diverse and evolving ways. This seems even more essential in an age of multiple trends and crises, such as global governance challenges, financial crisis, climate change, and the Covid-19 pandemic. In recent decades, there has been a broad if non-universal tendency to increase the public sector responsibilities of subnational governments and to take steps to improve their capacity in different ways and to varying degrees.

The fiscal framework is indisputably a foundational element of decentralization—without adequate, well-designed and well-utilized resources, decentralization cannot meet its broader objectives. These include, among others, to improve public service delivery and public resource mobilization, to enhance governance and accountability, to ensure greater equity in public service and development outcomes, and/or to nurture more stable institutions in fragile and post-conflict states. The specific goals of and approaches to decentralization reforms adopted in a particular country—and the prospects for positive and sustainable results—depend on history and contextual factors.

Although fiscal decentralization may be necessary to pursue priority goals, it is not sufficient for good performance. The broader intergovernmental framework needs not only to establish the fiscal powers and functions of different levels of government, but also to incorporate or be linked to other policies on public sector structures and processes that support subnational government operations. Failure to capture relationships among administrative, fiscal and political dimensions of decentralization can reduce their impact. Although weak fiscal empowerment would limit capacity and incentives for subnational governments to perform, robust fiscal powers must be supported and disciplined by sound administrative and political systems and processes.

To some extent the integrated nature of these elements is well-recognized by decentralization experts, but perhaps too superficially. The broader field has been somewhat disadvantaged by the often-specialized treatment of the elements of decentralized governance, including individual components of fiscal decentralization. Such fragmentation misses the value of more holistic assessments of the broader integrated landscape in which decentralization must operate. This partly reflects the complexity and diversity of these contexts and the challenges with measuring

decentralization, but it is also a function of the specific interests of researchers in different disciplines and practitioners with varied operational responsibilities.

Although strengthening subnational governments has received considerable global attention, there is relatively limited systematic evidence about how to make these efforts effective.[1] There are some broad lessons from the literature about typically positive or detrimental policies—often consistent with mainstream normative principles. But these lessons are often too general to support detailed reforms in particular contexts, and they may suggest a need for actions that may be difficult to realize.[2] Much early literature documented disappointing performance, and more positive reviews tended to be based on ad hoc successes or highly specific activities without systemic consideration of factors important for sustained performance and dissemination. Despite the difficulty of realizing some normatively desirable reforms and inadequate empirical evidence credibly identifying what works and under which conditions, many countries have continued to pursue decentralization, although some have taken steps to reverse course.[3]

This paper focuses on other selected aspects of decentralized administration, governance and operations that must work together with fiscal elements for successful and sustainable decentralization. It also calls for greater balance between the design of decentralization and its implementation. The next section briefly reviews the role of the intergovernmental institutional architecture and bureaucratic dynamics. This is followed by a selective overview of non-fiscal aspects of decentralization—civil service/humane resource management, development planning, public financial management and related functions, and governance for accountability to subnational government constituents. The fourth and fifth sections review neglected considerations regarding the implementation of decentralization policy and the need for a more strategic approach.

[1] Useful discussions of challenges involved in studying decentralization include Wolman (2008), LDI (2013), McLoughlin et. al. (2014), Rao et. al. (2014), Martinez-Vazquez et. al. (2016), and Rodden and Wibbels (2019).

[2] Reviews of the extensive decentralization literature from various perspectives include Ter-Minassian (1997), Bird and Vaillancourt (1998), Litvack et. al. (1998), Smoke (2001), Ahmad and Tanzi (2002), Bardhan and Mookherjee (2006), Cheema and Rondinelli (2007), UCLG (2010), Connerley et. al. (2010), Martinez-Vazquez and Vaillancourt (2011), Bahl, Linn and Wetzel (2013), Ahmad and Brosio (2015), Frank and Martinez-Vazquez (2016), Bahl and Bird (2018), Boadway and Eyraud (2018), Kim and Dougherty (2019), Rodden and Wibbels (2019), and Faguet and Pal (2023).

[3] Discussions of recentralization include Wunsch (2001), Dickovick (2011), Lewis (2013), Smoke (2013a), Lopez-Malesky et. al. (2014), Murcia (2022), Aksztjen et.al. (2024), and Luu et. al. (2024).

2. The Role of Institutional Architecture and Political Bureaucratic Dynamics in Decentralization

Although some of these issues have been raised in other symposium papers, it is useful to reinforce the fundamental importance and diversity of the institutional architecture and bureaucratic dynamics in which decentralization is created and operates. Two particularly important considerations are the structure and empowerment (overall and at specific levels) of the intergovernmental system and the role of national political economy and bureaucratic dynamics in shaping how decentralization is designed and functions.

Institutional Structure and Empowerment

Subnational governments are diverse in their position in the institutional hierarchy and in their roles.[4] Most countries have multiple levels of administration and government, and there can be major variations in decentralization policies and intergovernmental relations. Some countries have semi-autonomous elected local governments (devolution), while in other cases lower levels report to central government agencies (deconcentration). In some cases, there is a mix of devolution and deconcentration across levels, with great variation in functional and revenue authority allowed to each level and the autonomy they enjoy in exercising these powers.

There are also varying relationships among levels of government—in some countries at least one level is relatively independent, while in other cases the relationships are substantially hierarchical, such that lower levels are subject to supervision or formal approval of plans and budgets by higher tiers of government. In some cases, intermediate tiers (states, provinces, regions) are more powerful than lower tiers (municipalities, districts, etc.), while in other cases, the opposite is true. Dimensions of decentralization may also vary across levels; for example, provinces may receive access to more fiscal resources, but local governments may be more decentralized politically with fully elected assemblies and more independent budgets. In federal systems, states or provinces may have more influence control over local governments than the central government does. Certain types of subnational governments, such as capital cities and major metropolises, may have a special legal status, but it is not uncommon for them to remain subject to formal mandates or informal influences from higher levels.

[4]Some synthetic treatments include Boex and Yilmaz (2010) and Smoke (2013b, 2019).

Although much of the decentralization literature on developing countries (aside from cases of federalism) focuses on local level devolution, local governments are rarely the only (and may not be the main) service providers—there are often formal collaborations among levels and/or joint responsibility, either vertically or horizontally. Devolved systems may exist in parallel with deconcentrated administrative systems, and both may have operational departments in the same sectors and jurisdictions.[5] This is not inevitably problematic if their respective roles are defined and respected. If this is not the case, or if the deconcentrated system has superior funding and is delivering services that are the legal responsibility of the local governments (perhaps with the approval of or at the explicit direction of a parent ministry at the national level), there may be a serious accountability problem. There may also be other governmental (at any level), parastatal, special purpose vehicle and/or private sector actors with specific responsibilities, and these actors may or may not directly interact with elected subnational governments. In some cases, other actors even overtly infringe on the legally defined functional territory of local governments.

Thus, subnational government performance must be understood in terms of the institutional framework in a particular country and the formal and informal relationships among often differentially empowered levels of government and other governmental and nongovernmental actors that are involved in various public service functions and can affect particular outcomes. Without such an understanding, it may be difficult to document and correctly explain observed performance of subnational governments, to interpret the factors that shape it, and to devise options to improve it where needed.

National Political Economy and Bureaucratic Dynamics

The structure of intergovernmental systems and the role that different actors play must be understood in terms of historical trajectories and national politics.[6] The role of subnational governments is typically a function of a various factors, including governance traditions, external/colonial influences, social divisions, and political forces, among others.

Such considerations may preclude a stronger and more independent role for subnational governments even if this seems sensible and productive.[7] Local governments may be kept weak

[5] This is broadly recognized but not dealt with in much depth in the literature. There is some more detailed coverage, for example, in Connerley et. al. (2010), Eaton, et. al (2011), Boex (2013b) and Romeo and Smoke (2016).

[6] See, for example, Eaton (2004), Treisman (2007), Eaton et.al. (2011), and Smoke (2014).

[7] Issue reviews include Connerley et.al. (2010), UCLG (2010), and Bahl et. al. (2013).

because of pressure from regional governments that risk losing control of resources or because they are dominated by different political parties that may pose a threat to those in power at higher levels. If underlying forces preclude the type of local empowerment that seems likely to be productive, prospective reformers must try to identify feasible alternatives under prevailing conditions.

Although political and historical factors commonly shape the broad parameters of intergovernmental systems, detailed development and execution of policies is primarily under national agencies operating in sometimes competitive or even fractious bureaucratic environments.[8] Multiple national agencies are often mandated to develop and/or oversee specific policies relevant for subnational functions. Individual agencies with divergent views of the system and their role in it may independently develop inconsistent policies. For example, a service function may be devolved to subnational governments, but the finance ministry fails to provide for adequate resources, or the civil service commission does not allow for proper staffing to deliver the service. Under such circumstances, subnational government performance can suffer due to conditions they cannot control.

In aid dependent countries, international development agencies that partner with specific national agencies can also influence intergovernmental policy. Many international agencies support decentralization, but not uncommonly in fragmented and inconsistent ways both across and within agencies that have multiple departments with overlapping interests. Despite agreed global aid principles, many international agencies continue to use unsustainable arrangements (such as separately managed programs or funds to support various types and aspects of public services) and even to compete with each other, potentially reinforcing contradictory policies of their partner government agencies.

3. Fiscal Decentralization Depends on Other Governance and Management Processes

Subnational government empowerment in ways that improve their performance is typically the main official goal of decentralization. In this regard, it is fair to say that a central tenet of the conceptual and empirical literature is about establishing a reasonable balance between central government regulation/oversight (upward accountability) and subnational government

[8] Useful treatments include Litvack, et.al. (1998) and Eaton et. al. (2011).

empowerment/autonomy (downward accountability).[9] Both are needed to ensure effective governance in intergovernmental systems, and both require a sound legal framework that covers administrative, fiscal and political requirements. The intergovernmental fiscal framework should include an appropriate degree of upward accountability to help ensure subnational government compliance with basic processes and legitimate standards related to their functions.

At the same time, the legal framework also needs to provide for adequate discretion to allow subnational governments to pursue local development outcomes sufficiently consistent with local needs and preferences, which is seen as a key benefit of fiscal decentralization. The nature of subnational empowerment and the appropriate balance between control and autonomy should be a function of the basic goals of the system, its attendant structure (form of decentralization), and the national and subnational context. Deciding how to deal with the autonomy balance is one of the most significant challenges encountered in designing and operating intergovernmental systems in any country, no matter what the level of development.

This section briefly highlights key considerations regarding selected non-fiscal aspects of the intergovernmental framework that are central to the autonomy balance—the civil service and human resource management, development planning, public financial management and related operational processes, and governance processes that promote accountability to constituents. There has been research and policy attention to all of these topics, but mostly in fragmented ways and with inadequate attention to their connection to fiscal decentralization.

Civil Service and Human Resource Management

An important aspect of decentralization is the staffing of subnational governments, and this is often a major component of subnational financial needs.[10] The subnational civil service is rarely fully devolved—there are often standards for at least certain senior positions, and there may be requirements for levels of staffing in certain sectors (e.g. the number of students per teacher). In some countries there are dedicated intergovernmental fiscal transfers that may be sector-specific and can only be used for wages. In more cases of extreme national oversight there may be direct central government control of hiring and firing of subnational government staff, at least for certain

[9] This is treated in various ways in much of the decentralization literature and is specifically discussed, for example, in Boex and Yilmaz (2010) and Smoke (2015a),

[10] Relevant discussions include Green (2005), UNCDF (2005), Antwi and Analoui (2008), Hope (2009), Witesman and Wise (2009), Brinkerhoff and Morgan (2010), McGill (2010), Alam (2015). Broader treatments of capacity are in Andrews, Pritchett and Woolcock (2017) and Khemani (2019).

higher-level cadres of civil servants. The logic underlying these restrictive provisions is similar to reasons given for caution about fiscal decentralization—subnational governments cannot be trusted to handle staffing effectively because of capacity and corruption concerns.

Vertical accountability in the subnational civil service structure can play a valuable role—national (or in federal countries, state) standards, if well-conceived, followed and enforced, can be useful to support priority service delivery and revenue generation needs. Higher-level control and/or transparent oversight could in principle help to reduce inadequate or inappropriate practices and political interference in subnational government hiring. At the same time, excessive higher-level mandates and control can weaken horizontal and downward accountability in devolved systems with potential negative aspects on subnational government functional performance.

In devolved systems, the relationship between elected subnational government officials and councils and the subnational government staff who administer subnational government budgets and perform other subnational government functions is a critical factor in performance. If elected officials and councils ultimately bear legal responsibility for delivering services that meet the needs of the constituents who elect them, they require some degree of control over the civil servants—managers and staff—who deliver those services. This relationship affects both horizontal and downward accountability.

If, for example, an elected mayor, city treasurer or other relevant official cannot ensure that a sectoral department head will discipline or fire poorly performing employees, they are in a weak position to improve delivery of an underperforming service or function. This constitutes both a horizontal accountability failure between elected subnational officials and civil servants and a break in the social contract—the downward accountability link—with constituents. Although the degree of control that elected subnational government actors have over staff is important, how it is executed also matters—subnational elected officials can behave inappropriately and undermine the effectiveness of public functions in the absence of a regulatory structure that helps to ensure basic standards and to constrain politicization.

A particular challenge may occur when decentralization is new or has undergone major reforms. In newly decentralizing countries, for example, staff are often transferred from the central government to the nascent subnational governments. These employees are now legally responsible to the elected subnational governments they work for, but they may maintain strong upward

accountability relationships to the higher-level ministries or agencies they have worked under for years. If they privilege informal directions from these entities over official directions from subnational government leadership, the latter may be in a weak position to deliver on their commitments to their electorates.

As with most aspects of decentralization, the appropriate balance between the role of higher-level and subnational governments will depend on the context of a particular country and the characteristics of subnational governments. If the balance is towards upward accountability in earlier stages of decentralization, it is important to consider how that balance can be shifted as conditions evolve and subnational governments mature. Civil service frameworks often stagnate, but they should be subject to appropriate modification when giving greater control to subnational governments has the potential to improve their performance.

Development Planning

Development planning has played a critical role in promoting national economic and social objectives and has been a longstanding cornerstone of development practice. Many countries have national development plans, but subnational government, particularly urban, development plans have been used widely—if unevenly and differently—as well. The fundamental rationale for subnational development planning is the same as the rationale for subsidiarity outlined in fiscal federalism—the assumption that subnational governments enjoy locational and governance advantages in providing certain public services.

There is another factor, however, that is not much emphasized by mainstream approaches to decentralizing specific public functions—subnational governments would be expected to have greater motivation and potential to pursue integrated territorial development. The logic is that they will be more inclined to consider public needs and functions in their jurisdictions in a holistic way compared to national ministries with narrower sectoral mandates. Many public services and investments are interdependent, and subnational governments may be in the best position to recognize these relationships on the ground and to plan the investments needed to provide these services jointly.

Also neglected in traditional decentralization thinking is the idea that subnational governments should have a general mandate to provide for the overall development of the territories they govern and the welfare of their constituents. General mandates imply more empowered and

autonomous subnational governments that are able—provided they do not infringe on national functions or violate other legal provisions—to act beyond specific functions assigned to them in the national legal framework, broadening their scope to deal with territorial needs.[11]

Unfortunately, finance is an often-neglected counterpart of subnational development planning, a particularly problematic situation given the relentless march of urbanization and the growing demand for local services and actions associated with climate change response.[12] The link between planning and finance is clear in theory, but it has been inadequately made in practice. Priority infrastructure projects identified in subnational plans may not appear in subnational development budgets, while projects selected and financed by national ministries do. Whether infrastructure projects are in the development budget may not affect the recurrent budget— funds may be allocated in the annual budget to operate and maintain a facility that has not yet been built, or there may be no operational funds allocated for a facility that has been built.

The sources of these problems can be challenging to identify, and there may be no easy way to solve them. They occur because subnational governments operate in diverse multifaceted settings that complicate their ability to plan and control finances independently. They are often embedded in several levels of government and administration involving relationships that are complex and poorly defined in law and/or practice. At each level, there are actors—potentially with conflicting objectives—who influence planning and how plans are financed. Subnational plans may be subject to approval or interference from one or more higher levels, and the degree of influence may vary across sectors, complicating integrated territorial planning.

Even if plans are relatively independent, funds to implement them may largely come from higher levels. If intergovernmental transfers are highly conditional, subnational governments may be unable to pursue priorities articulated in their plan. If there are restrictions on subnational revenue generation or the finance ministry will not approve loans for infrastructure in a creditworthy urban government, the best devised plans may not be implementable. Such challenges are pervasive the Global South. Yet if subnational development plans are to be meaningful and vital infrastructure

[11] See, for example, Commonwealth Local Government Forum (2013), Romeo (2013), Romeo and Smoke (2016), European Commission (2016).

[12] See, for example, Unites Cities and Local Governments (2010), UN-Habitat (2015), Romeo and Smoke (2016) and Smoke (2019a).

investments that are the responsibility of subnational governments are to be implemented and sustainably operated, these types of situations need to be identified and addressed as appropriate.

Public Financial Management and Related Operational Processes

Public Financial Management (PFM) reforms are considered central to effective decentralization given their fundamental role in promoting managerial efficiency, transparency, and subnational government accountability to both higher-level governments and local constituents. There is little controversy about the need for PFM and related processes, although there may be debates (as there are in the general PFM literature) about which aspects of PFM reform to prioritize and what level of sophistication is needed in different environments.[13]

One set of debates in the limited relevant literature centers around the relationship between PFM and decentralization reforms.[14] SNG can be key actors in the effective operationalization of PFM reforms in countries where they have been empowered through decentralization reforms, but the dominant view has probably been that PFM is a building block or a pre-condition for effective SNG, and that PFM reforms should therefore lead fiscal decentralization.

There is, however, recognition that decentralization reforms precede PFM reform in some countries due to contextual/political realities. Such reforms may prioritize objectives other than improved efficiency and fiscal discipline, complicating the PFM reform agenda. Thus, in cases where key decentralization parameters are already in place when PFM reforms begin, the PFM agenda may have to at least partially respond to the decentralization agenda. Otherwise, some decentralization reforms that are working well could be lost as new PFM reforms are developed and imposed. In addition, a country may not have the luxury of waiting for an ideal PFM system to be developed before advancing its decentralization agenda. From a citizen perspective, subnational governments must establish an ability and willingness to deliver services and perform other functions to meet their needs. Subnational government budgeting and record keeping is not likely to be politically visible or the top priority public service priority to citizens.

Ideally, PFM reforms and broader decentralization reforms would be pursued in tandem. The situation is somewhat complicated by the fact that broader decentralization reforms and PFM

[13] See Cangiano, Curristine and Lazare (2013) for a useful overview of PFM and specific elements and Smoke (2015c) and Mills (2017) for a discussion of the subnational experience.

[14] See Fedelino and Smoke (2013) for a critical overview of this relationship and brief discussion of selected cases.

reforms are generally led by different national agencies. There is, however, a growing interest in thinking about how PFM reforms relate to subnational government management and service delivery, so there may be increasing opportunities to better link the various types of reform.[15]

It is particularly important in assessing PFM practices and effectiveness to understand how subnational budgets are created, what they include, how they are executed, how they are monitored, and how budget assessments are used. There have been widespread reports of issues with subnational government budget formulation, budget execution and limited discretion.[16] The role/engagement of subnational governments in the national budgetary process is often unclear and reportedly often mistimed (e.g., subnational budget needs are submitted after transfers are determined) when practiced, even if there are well-defined formal procedures. Budgeting processes tend to remain dominated by top-down approaches and national-level actors, even if input from subnational governments and service facilities is solicited. The concern is that top-down approaches may allocate resources using criteria that are insufficiently tailored to jurisdictions and facilities. There is a need to understand how subnational governments and frontline service providers, who are familiar with local conditions and needs, do and could participate in the budget process and influence budget formulation constructively.

Budget execution is also a major concern. There are commonly claims of insufficient autonomy in the use of service delivery transfers by subnational governments and facilities. Debates about discretion in the context of decentralization are well known but not well examined in the practice of expenditure management. There is not much evidence regarding whether constraining subnational governments from having more flexibility in using transfers has a positive (meeting national standards) or negative impact (insufficiently targeting local needs) on service delivery. It is important to document levels and impacts of discretion—whether constraints are in place for legitimate reasons, and the prospects, benefits and costs of changing current arrangements.

Beyond budgeting and PFM recordkeeping and reporting, other processes help to ensure proper use of public resources by subnational governments. These include, for example, internal and external auditing and procurement. Auditing needs to be credible and consequential, but this has not been the case or results are uneven in many countries. The legal frameworks for functions such

[15] See for example, Broadbent (2010), Welham et. al. (2017), Piatti-Fünfkirchen and Schneider (2018).

[16] Some are discussed in more detail and illustrated with cases in Smoke and Loeffler (2021). More information on subnational PFM assessment is available on the Public Expenditure and Financial Accountability (PEFA) website.

as procurement and public-private partnerships, for example, can have a significant effect on subnational government performance. In some cases, subnational procurement is centralized even for expenditures supporting legally devolved functions, and in other cases it is done at the local level and insufficiently regulated. Similarly, subnational government public-private partnerships (PPPs) may be largely defined and managed by a central government agency, and in other cases they may be left to subnational governments that may not have the expertise to negotiate or enforce PPP agreements. How these functions are managed can have a considerable influence on how well subnational functions are executed and the impacts they generate.

Funds for subnational service delivery—whatever the source and however allocations are determined—are sometimes managed using different systems and processes. Subnational PFM is often (but not always) integrated into national PFM systems. If separate systems exist, they may use different budget categories, standards, and processes, which can complicate management and accounting for sector finances as well as make it difficult for the central government to assess subnational fiscal performance and take appropriate action to help address any deficiencies.

Equally important, the institutional path through which resources move can vary, flowing from one or more national agencies through one or more level(s) of government before reaching service delivery facilities. At each stage, different actors may have some authority over how and when to pass funds to the next level, and this can result in misallocations and delays in the distribution of needed funds. In addition, transfers from special-purpose funds managed separately by parallel systems (within government or by international development partners) may go through the government budget or be off-budget, and they may even flow directly to subnational governments or to service delivery units. In some cases, resource flows are not totally off the public budget but are not included in subnational budgets; for example, salaries for subnational government health facilities may be paid directly to employees by the national health ministry. Some central government support may also be given in the form of in-kind inputs to subnational governments or service facilities, going directly to agencies that perform certain functions. This is, for example, relatively common with drug procurement for subnational health facilities. All of these can affect the ability of subnational governments to manage resources effectively.

Governance and Accountability to Constituents[17]

The international community has over the years broadly framed "governance" as including most aspects of public sector responsibilities, including economic and financial management and the elements of the intergovernmental fiscal framework that this symposium is focused on. Many of these are covered in other papers for the symposium and some earlier in this paper. This section focuses only on a narrower range of topics related to how citizens are informed about, engaged with and served by subnational governments in decentralized countries.

These aspects of decentralization are essential because they can influence how subnational governments perform. Indeed, an implicit assumption of fiscal federalism is that there is a mechanism for citizens to communicate their preferences for public action to subnational governments and hold them accountable for being responsive to those preferences. Such mechanisms include the subnational government role in civil service and human resource management (discussed above) and a few briefly covered in this section—elections, non-electoral accountability mechanisms, and transparent and readily accessible sharing of information.

It is well recognized and documented that some key governance assumptions (explicit and implicit) of decentralization and intergovernmental fiscal relations theories are only weakly met at the subnational level in many developing countries.[18] Even with national policies and systems seemingly consistent with normative fiscal decentralization principles and under the most advantageous national political and bureaucratic circumstances, subnational governments can create or face formidable challenges on the ground that may limit their ability to improve performance as expected under decentralization. Some of these challenges are driven by other elements of governance, including civic engagement.

There are multiple types of relevant local governance reforms related to civic engagement. First, if the system involves some degree of devolution, then the structure and nature of subnational elections are relevant. Second, whether or not a system is devolved, non-electoral accountability mechanisms can—under appropriate conditions—help to inform and even discipline subnational

[17] This section is partly based on Smoke (2014).

[18] Reviews of the accountability and governance aspects of decentralization are found, for example, in Bardhan and Mookerjee (2006), Shah (2006), Cheema and Rondinelli (2007), CLGF (2007), Boex and Yilmaz (2010), Connerley et. al. (2010), Rees and Hossain (2010). Yilmaz et. al. (2010), Agrawal and Ribot (2012), Grindle (2013), Local Development International/DFID (2013), Öjendal and Dellnäs (2013), USAID (2013), Faguet (2014), Leon and Wantchekon (2019), Rodden and Wibbels (2019).

government decision making. Third, publicly available data on subnational government expenditures, resources, and results provide information that can contribute to governance and accountability if it is adequate, accurate and meaningfully used to guide subnational government behavior.

Such governance mechanisms, however, can also be used inappropriately. There is considerable evidence—although of varying strength and quality—that how subnational governments make decisions on assigned functions and manage subnational governance processes depends substantially on the relative strength and motivations of the sources of subnational political power—economic elites, ethnic/religious groups, political factions, business associations, labor unions, civil society actors, etc.—and the resulting incentives they generate for subnational politicians and administrators.[19] These subnational dynamics can also interact with national political dynamics, such that some subnational governments and other actors are privileged through party, ethnic or private sector linkages with national politicians and bureaucrats. Common problems like elite capture and corruption are well known, but they are not universal, and they are not unique at the subnational level. Their existence and severity depend on the nature of local political relationships and the ability of the intergovernmental framework and upward accountability mechanisms to hold problematic dynamics in check. It is, therefore, quite important to understand how they may affect subnational government behavior and performance.

Subnational Government Elections

Mainstream fiscal federalism implicitly assumes that there is a political mechanism for subnational governments to determine citizen preferences in terms of how subnational revenues are generated and spent.[20] In devolved countries, elections are considered a foundational element of subnational governance. Competitive elections (to varying degrees and in different ways) do occur in many countries, but in some cases subnational assembly members are partially appointed, voters can only choose candidates from closed party lists, or one party controls the local political landscape and precludes meaningful competition.

[19] See, for example, Scott (2009), Connerley et.al. (2010), Yilmaz et. al. (2010), Eaton et. al. (2011), Agrawal and Ribot (2012), Öjendal and Dellnäs (2013), Rodden and Wibbels (2019).

[20] The political dimension is more explicit in second-generation fiscal federalism, for example Oates (2005), Weingast (2014).

Even under a strong fiscal decentralization framework, subnational electoral processes will shape accountability and affect service delivery, revenue generation, and other aspects of subnational government performance. Cultural traditions, ethnic identification, and political party loyalties (which may be linked to ethnic allegiances) can influence elections and lead to politicization of decisions, such that patronage, clientelism, traditional mechanisms and other forms of non-democratic behavior dominate how subnational government resources are raised and used. As in so much of decentralization, context is very influential, and not always in predictable ways.[21]

Non-Electoral Subnational Governance Mechanisms

Even if subnational elections are sound, they are recognized as an imprecise and not very frequent mechanism for deepening downward accountability (and they do not exist in all countries). The need for other types of local accountability mechanisms is, therefore, well-accepted. These may include participatory planning and budgeting, town meetings, general or service-specific local public service oversight boards, user committees of service beneficiaries, citizen complaint bureaus, and social auditing of subnational government activities (usually managed by an NGO), among others. These civic engagement mechanisms can improve public awareness of and influence on how subnational funds sources are derived and used, and they may also support more effective and equitable service delivery and enhance local social capital.[22]

Despite their potential value, non-electoral governance mechanisms may face potential obstacles and risks. First, they can be equally as mechanically as more technical public sector reforms, and their expected benefits can also be weakened by political dynamics. Participatory planning or budgeting, for example, even if well designed to meet normative principles, may only be cursorily or partially implemented. If participation is superficial or only advisory, there is not likely to be much impact on governance or fiscal performance. In addition, such processes, like elections, can be captured by local elites—political parties, private sector actors, or even unrepresentative citizens groups or NGOs—limiting or undermining their intended effects. Another consideration is that targeted efforts to make subnational governance more inclusive, such as mandatory levels of representation for marginalized groups (e.g. minimum membership shares for ethnic or religious

[21] See, for example, Bland (2010), Ponce-Rodriguez, et. al. (2018), Baldwin and Raffler (2019), Grossman (2019),

[22] Reviews of selected experiences with civic engagement include Shah (2007), Brinkerhoff and Azfar (2010). Goldfrank (2012), Blair (2013), Lund and Saito-Jensen (2013), Baiocchi and Gannuza (2014), Cabbanas and Lipietz (2018).

minorities or women) in official bodies or processes need not strengthen their influence on subnational government expenditure decisions or results.

A second significant qualification regarding non-electoral accountability mechanisms is that their existence does not guarantee their use even when there are no apparent obstacles. Subnational government budgets may be publicly available, for example, and there may be opportunities for constituents to participate in a range of consultative forums, but people must know about them, be able to access them and have some confidence in how to use them. Citizens in general or in specific groups may face barriers to civic engagement, such as inadequate knowledge, limited access to advice and support, or even fear or overt intimidation that dampens use of these mechanisms and openly expressing of views.

Subnational Information and Transparency

Reliable and accessible information is an essential requirement for good subnational governance. The literature that focuses directly on this topic (aside from technical papers and manuals on how to develop SNG data and information systems) is relatively limited, although more is emerging as the role of data in dealing with climate change becomes more prominent. On balance, however, much of the consideration of subnational government information is in the literature on PFM, budgeting, reporting, etc., or on civic engagement processes that require access to data. Indicators of data availability and access are included in public management assessment tools, such as the Public Expenditure and Financial Accountability (PEFA) program.[23]

There are a few studies that take stock of the status of subnational data, information systems and/or consider the extent of subnational budget transparency or performance.[24] These papers commend progress, but they also raise a number of issues. Prominent concerns include a lack of clarity about which data should be made available, how to measure indicators properly, and what constitutes transparency. A second issue is understanding the conditions under which subnational governments can be confidently charged with data collection and access and the potential need for higher-level or external engagement or oversight. Finally, the sustainability of data collection and quality has often been elusive. A related point cited as a concern is that such initiatives are often

[23] See, for example, Boex (2013a).

[24] See, for example, Boex (2013b), Canares and Shekhar (2015), German (2017), Stanic (2018), Strachan (2018) and OECD-UCLG (2016, 219, 2022).

too closely linked to international development partner projects with a finite timeline and for which there is inadequate provision for institutionalization.

In summary, a strong intergovernmental framework that includes an adequate degree of upward accountability and incentives for subnational governments to behave responsibly can help to support good subnational activity and restrain politicized subnational government behavior. At the same time, how the elements of the framework are used and the extent to which safeguards function present challenges that must be understood and counteracted to the extent possible, Ultimately, how all of these considerations interact to support or constrain subnational service delivery and revenue generation will influence whether residents feel well served and fairly treated (in terms of benefits received for revenues paid and relative to other local residents), and, therefore, whether they will be motivated to vote, to pay local revenues, to use civic engagement mechanisms and generally to be the active citizens required for effective SNG.

4. Addressing the Overlooked Challenges of Implementation

Much of the decentralization literature privileges system design consistent with mainstream principles. Although new systems and reforms to existing systems must be well designed, even a normatively flawless system must be operationalized, and in a way that reflects political economy realities and other non-fiscal factors, such as various contextual factors noted above. There has been growing interest in the literature about how to implement and sequence decentralization in a pragmatic and more sustainable way, including capacity development.[25]

Although intergovernmental fiscal system designs may be fairly comprehensive, they are not necessarily well linked to the larger intergovernmental framework discussed above, and the detailed design and implementation of individual elements of fiscal decentralization are often done separately. To some extent fragmentation is unavoidable given the varied responsibilities and priorities of relevant actors, the tendency of academics and practitioners to become specialists, and the reality that not all reforms can be done simultaneously. Such challenges are well documented.[26] Yet more could often be done to frame specific initiatives in the context of the overall system and

[25] How to approach the implementation of decentralization is considered in various ways by Shah and Thompson (2004), Falleti (2005), Ebel and Weist (2006), Martinez-Vazquez and Vaillancourt (2011), Bahl and Martinez-Vazquez (2013), Dafflon and Madies (2013), Smoke (2014, 2015b), Sow and Razafimahefa (2017); Boadway and Eyraud (2018).

[26] See, for example, World Bank (2015) and Smoke (2021).

sequenced to a practical reform trajectory structured to ultimately connect the interdependent elements of an intergovernmental system.

Another underappreciated factor—although there has been growing recognition in recent years—is the often-significant asymmetry of subnational governments. The design and implementation of decentralization is often relatively uniform within definable categories—for example, states/regions/provinces versus various types of local governments (cities, municipalities, countries, districts, etc.), or urban versus rural governments. What is too infrequently taken into account, however, is that jurisdictions within an individual category may differ substantially in capacity and performance in one or more dimensions of decentralization. Thus, empowering them all in the same way from the start may be inappropriate, and presuming they can adopt reforms at the same pace is unrealistic and can result in highly uneven results.

Implementation from the National and Subnational Perspectives

Both national and subnational governments play a critical role in implementing decentralization. The center is expected to create a comprehensive legal framework, but the level of development of the framework and how it is used in practice can vary considerably. One extreme—a "sink or swim" approach—is based on the assumption that the issuance of the framework is sufficient if it meets normative standards and incorporates incentives to motivate compliance by central and subnational actors. This presumes that actors have the capacity and desire to follow the framework and that the incentives embedded in it are not overwhelmed by other incentives. The other extreme—a more "developmental" approach—is based on controlled gradualism in which the center issues a (ideally normatively sound) comprehensive framework but controls the order and pace at which the elements of decentralization reform are implemented. This may be appropriate, but without competent, unbiased and consistent use of clear criteria, this may lead to stalled reforms and could prevent high-capacity local governments from meeting their current potential. Effective implementation requires a strategy that is tailored to context (see below).

Subnational government control over decisions about how to implement decentralization reforms is dependent on the provisions of the national framework, the type of support provided by the central government, and the local political and bureaucratic dynamics mentioned above. In the end they must make similar choices to the central government—they can try to adopt multiple reforms quickly (if allowed), or they can proceed more gradually. Their specific trajectory reflects what they

feel they need to do, what is politically feasible, and their capacity. As with the central government, a strategic approach that reflects these realities is more likely to succeed.

Reform Requires Often Elusive and Time-Consuming Behavioral Change

The most central concern in approaching the implementation of decentralization may be the structural and operational changes involved, which often require considerable modifications in the attitudes and conduct of all actors. Central agencies—perhaps contrary to their inclinations and interests—must learn to yield powers and transition from control to oversight and support of subnational governments. Subnational governments must learn see the value of and to undertake new functions. Subnational government staff and elected officials must learn to work with each other (implied by the earlier discussion of accountability shifts) and to engage with constituents. Citizens need to become familiar with their rights and responsibilities—and to learn how to hold subnational governments accountable for doing their jobs properly. In aid dependent countries, international development partners need to learn how to appropriately cooperate with each other (without undermining innovative activities) to support country systems and policies.

These behavioral evolutions are institutionally and politically challenging and timing is important. Implementing too many fiscal and managerial changes too rapidly for local capacity and entrenched attitudes to handle is likely to weaken the prospects for reform to be successfully adopted and institutionalized. If this occurs, the stance of decentralization reform opponents may seem to be validated when the problem is the implementation of reform rather than its content. But if reform is too limited and gradual, it may produce little visible change, and the actors who support change—and voters in local jurisdictions—may lose interest.

Implementation Requires Appropriately Conceived and Executed Capacity Building

Another core concern is capacity building for decentralization reform. There has been much reference to subnational capacity building, but it is often part of very broad initiatives or linked to specific reform efforts that depend on other factors to succeed. Some critics have long highlighted the prevailing "supply driven" (by central governments and international development partners) approach, which is claimed to privilege standardized technical training and often neglect the underlying incentives and dynamics outlined in this paper.[27] Some analysts also raise concern that

[27] See Green (2005), UNCDF (2005), Antwi and Analoui (2008), Hope (2009), Brinkerhoff and Morgan (2010), McGill (2010). Broader treatments of capacity are provided in Andrews, Pritchett and Woolcock (2017) and Khemani (2019).

subnational capacity development continues to be primarily offered as conventional classroom instruction.

Initiatives to foster more "demand driven" (requested by subnational governments for immediately needed skills) and "on the job" follow-up coaching have been increasingly advocated but unevenly adopted. Both standardized supply-driven training and tailored on-the-ground capacity development approaches serve a role. Broad overview training offers a foundational understanding of the system and exposure to basic skills, while initiatives to respond to subnational requests for specific skills required for immediate commitments can serve a complementary role in targeting, refining and reinforcing needed capacity on the ground.

An additional issue that also gets some attention is the alleged concentration of capacity building on developing subnational government civil servant technical skills. There have been calls for more effort to nurture governance capacity to support the effectiveness of subnational politicians, staff and citizens—beyond ubiquitous but often-pro-forma participatory planning and budgeting exercises noted earlier—which may promote more meaningful and productive civic engagement.

5. Strategically Approaching Decentralization Reform[28]

So how can reformers pragmatically attempt to deal with the many issues raised above that might affect how to approach reform? There are, as previously indicated, some useful principles and some evidence regarding fiscal decentralization. Yet there is no comprehensive analytical framework to methodically guide how to support viable decentralization reform. This means that informed judgment and a sense of pragmatism have important roles.

Identifying Priority Challenges and the Underlying Drivers

As noted above, use of narrow principles and technical analyses to define reforms have become pervasive in a world where expertise is increasingly specialized and there are limited incentives for more holistic actions. Not all reforms can comprehensively incorporate the broad landscape of decentralization. Yet it is constructive to consider how to identify "binding constraints" and prioritize reforms in the broader context, which may require collaboration among multiple actors. A sufficient understanding of reform linkages and political economy dynamics could generate more reflective, integrated and practical applications of reform principles and raise the prospects for

[28] This section is partly based on material in Smoke (2014, 2015b, 2021).

enhancing systems and results. Greater general appreciation (i.e. not specifically linked to decentralization) for this type of analysis has emerged in recent years in the literature and efforts on political economy analysis of development assistance and "doing development differently."[29]

Beyond identifying major challenges in service delivery and revenue generation, it is essential to diagnose why they exist. This may be obvious, or it may require careful detective work.

It is impossible to exhaustively outline the needed analysis here—there could be many more questions, and productive analysis would have to dig deeper on multiple managerial and governance fronts discussed in previous sections.

Despite these caveats, even getting a sense of the answers to basic questions can begin to illuminate the drivers of the issues, to suggest further investigation required and to identify possible remedies. At the same time, the relative importance of underlying problems and linkages among them need to be understood if some operationally specific steps are to be proposed. It is not necessary, for example, to have robust local elections for a local government to take steps to improve service delivery and increase citizen satisfaction. An informed analyst can learn to draw the boundaries of the assessment to focus on things that matter most for concrete action in a particular case.

Designing, Activating and Sustaining Strategic Action

Once specific priority reforms are identified, they must be designed and implemented. An implementation strategy needs certain elements to achieve its goals. These include a pragmatic entry point, an expected trajectory of reform over time, incentives for adopting reforms, capacity building and support, and managerially oriented monitoring and feedback mechanism.

Identifying Initial Steps and Partners

Finding a starting point for action ideally involves both framing reforms in broader context and identifying attainable goals. If decentralization is new or contentious, it may be necessary to focus on very basic reforms that don't threaten current power bases or excessively strain existing capacity. It is also useful to select a measure that is adequately consequential and visible and that

[29] See, for example: Andrews, Pritchett and Woolcock (2013), Booth and Unsworth (2014), Levy, Fritz and Ort (2014) and Rocha Menocal (2014). See also: http://doingdevelopmentdifferently.com

can initiate movement in an appropriate direction. Efforts may begin on a small scale at a lower level of government but incorporate important technical and political reforms.

A strategic approach also includes the identification of interested actors who are likely to support the effort. If a particular ministry is prepared to take concrete steps to transfer powers to subnational governments or enhance their ability to deliver a particular service or manage specific resources, such partners could initiate the reform rather than agencies that prefer to retain control over their pre-reform functions and resources.

As discussed earlier, national reforms often assume that subnational governments have similar absorption capacity. Assuming those with limited capacity can manage new responsibilities invites failure, while unduly controlling capable subnational governments wastes resources and weakens accountability. Asymmetric entry points can be constructive—some reforms might even be negotiated with each subnational government rather than uniformly prescribed. Such negotiation places some responsibility on a subnational government to do what they agreed to.

In selecting and sequencing reforms, individual components would ideally be appropriately linked/coordinated to the extent feasible, even if initially in a simple manner. As noted above, a fragmented approach may lead to reforms that seemingly meet mainstream normative principles but in fact may not yield results. Improved subnational revenue collection, for example, often requires not only technical and managerial reforms, but also governance outreach to taxpayers.

Creating Credible Oversight Structures and Productive Incentives

There is potential for positive and negative incentives (rewards and penalties) to motivate central and subnational governments to behave as intended under reforms. If many actors with different but interdependent functions are involved, oversight and enforcement by a coordinating entity could improve compliance and impact. The political economy of such coordination mechanisms is often challenging, particularly if the lead agency is not seen as an actor with specific interests and this weakens commitment from other actors whose engagement is critical. Collaboration can be improved, however, if a mechanism is properly designed to reflect sufficient consensus about and motivation or pressure to start and proceed with reforms and leadership is neutral/credible.

Innovatively defined incentives may also help to facilitate subnational government adoption of decentralization reforms. These include, for example, monitored accountability mechanisms (e.g. central government contracts with subnational governments to meet specific reform targets);

financial incentives for reform adoption/performance gains (e.g. compliance or performance-based grants that reward subnational government attainment of specific targets); and tournament-based approaches (e.g. competitive contests that bring recognition by rewarding notable achievements of particular subnational governments). [30]

Linking Capacity Building to the Reform Trajectory

The need for capacity building and technical assistance for both central and subnational actors was highlighted to facilitate the modified roles they have to play under decentralization. As discussed earlier, however, training and support are often developed by central governments and international agencies in an unduly uniform and mechanical way. The previous discussion noted specific concerns—a preference for traditional classroom training and technical skills, with less emphasis on skills perceived as urgent by subnational governments (demand-driven) and more limited focus on governance capacity or relations between elected and appointed officials.

There is general consensus—in principle if not in practice—on the need to nurture both subnational technical capacity (of government staff who will be executing public functions) and subnational governance capacity (of citizens, elected officials and staff to work together). But related efforts are rarely designed to facilitate such interaction in a meaningful way. Beyond conventional courses, "on the job" training can build skills and enhance skill retention, but it is more challenging than classroom training and requires dedicated effort and resources to develop, execute and sustain.

Institutionalizing Reform with Modifications Based on Credible Monitoring

The reform path (asymmetric, if appropriate) should ideally be directly linked to dedicated capacity and performance enhancement efforts. Technical reforms can be tied to efforts that build capacity for particular functions being implemented during a specific time period. By using defined criteria, reforms can be sequenced in a transparent way so that they build on each other. This is demanding relative to conventional approaches. It is not easy to design such a scheme, and it could become overly bureaucratic and be captured by politics. Nevertheless, there is a need to be more innovative in implementing decentralization, and if approached carefully this type of strategic approach could reduce arbitrary or politicized decisions and limit stalled reform.

[30] See for example Shah (2010), Steffensen (2010), Lewis and Smoke (2012), Shah (2013), Mukherjee (2014), Fan, et. al. (2017), World Bank (2022),

For such an approach to work effectively, there must be transparent monitoring of progress and performance as new reforms are implemented. There have been many decentralization monitoring efforts, but they are often not sufficiently used to try to adjust general approaches or task/location specific reforms. Even if they are, analysis often focuses on adopting a "symptom treating" type of reform that will not solve more fundamental obstacles to reform. Still, monitoring mechanisms have untapped potential as managerial tools, especially if linked to sufficiently robust and integrated diagnosis of problems. Although the type of desired good information and its use for making policy changes is not well established in many countries, there have been positive steps taken to move in this direction.

Diagnosing the Drivers of Specific Priority Problems: Looking Beneath the Surface

The above discussion of strategy is fairly generic, and it is focused on thinking about how to begin sequencing fiscal decentralization or reforms to existing systems. In many countries some fiscal decentralization is already in place, but challenges with aspects of the system need to be addressed, and these may be as or more difficult than creating a new system. It is important not only to identify consequential priority issues, but also to understand why they exist. The solutions might be quite different in terms of approach and feasibility, for example, if the main reason for the issue is technical, financial, or political.

If subnational service delivery is inadequate, for example, what is the nature of the obstacles to better performance and why does the deficiency exist?

- Has the subnational government not been properly empowered to deliver a service through constitutional or legal provisions? Is this an oversight in design or the intended result of those with political power?
- Are national government actors unaware of the changes they must make to meet their devolution responsibilities? Are they intentionally ignoring the assignment of legally mandated subnational government functions or not providing support to subnational governments that they are legally required to do? Is inaction a result of weak capacity, funding limitations, bureaucratic manipulation, etc.?
- Are subnational governments not assuming legally devolved functions or failing to use systems and procedures they are empowered to use? If so, is this due to understaffing, limited resources, weak capacity, resistance to change, political incentives, etc.?

These are just some of the questions one might ask, but they represent information that is needed to craft a reform. Mainstream approaches to weak service delivery might be to develop capacity, to provide conditional transfers, to engage the private sector etc. But enhancing capacity and

providing more resources and incentives may not solve improve performance if the underlying issues are rooted in political or bureaucratic dynamics and weak accountability to constituents.

Similarly, if subnational revenue is insufficient, what are the main deficiencies and what factors underlie them?

- Are allowable local own-source revenues too few, improperly designed, or subject to excessive central government control?
- Have subnational governments decided not to use certain legally available own-source sources? Or have they adopted these revenue sources but are failing to collect proceeds at levels that reflect the revenue bases?
- If subnational taxes and charges are generating too few revenues, are local governments not using tax rates or charges at a level commensurate with needs, or are people are not paying what they owe?
- If local governments have limited taxes or other local revenue sources, does this reflect central regulations/interference, lack of subnational government awareness of their legal revenue powers, poor data, etc.?
- If local revenue collection is low, is there weak administration, perverse incentives created by fiscal transfers, inability of residents to pay, or unwillingness of residents to pay due to dissatisfaction with services, a sense of unfairness in tax and fee structures and collection practices, or lack of general trust in local government, etc.?
- If intergovernmental fiscal transfers are considered a problem, are they not sufficient in volume? Are they too conditional or too unconditional relative to current context? Do conditional transfers discourage local revenue generation or distort the composition of budget line items (e.g. finance too many staff but inadequately provide for supplies)?
- If subnational borrowing is limited, is this because of creditworthiness issues? If so, are these a function of weak local revenue bases? Do intergovernmental fiscal transfers disincentivize subnational borrowing? Are subnational borrowing frameworks restrictive or complex? Is there political unwillingness to generate the resources needed to service debt and operate and maintain infrastructure financed by borrowing? Are citizens not holding subnational governments accountable for their public investment responsibilities?

These are just examples of the types of questions one might ask, but they illustrate that considerable information may be needed to pursue a strategic remedial approach. As with the above discussion of expenditure, reformers may be identifying symptoms of underlying determinants that must be addressed if the identified issue is to be resolved. If, for example, a local tax is unproductive the tax base is small and/or stagnant, or the rate is low, common mainstream solutions might include expanding the base, improving base assessment or increasing the rate. But if the more serious immediate problem is under-collection due to weak capacity, poor enforcement, political incentives, or taxpayer avoidance (for legitimate or self-serving reasons), expanding the tax base or raising the rate may have a limited effect on yield or even worsen the collection situation.

Beyond basic determinations, a range of capacity and political economy considerations could be shaping observed deficiencies. Flaws in the national decentralization framework could result from an unintentional omission or error in design or overt political attempts to limit subnational government powers. Weak follow-up and implementation efforts may occur because national government agencies actively obstruct implementation of legally devolved functions or do not provide subnational governments with needed training and technical support. Such behavior could reflect limited central bureaucratic capacity, budgetary constraints, apathy or overt hostility to enhancing fiscal decentralization, among others.

Such meticulous investigations can be tedious and challenging, and their focus and content can vary substantially in different countries. But they may play some role in helping to identify the proximate determinants and underlying causal factors and dynamics that affect observed subnational government performance problems and to begin determining if and how they can be eased. Some potential concerns might be excluded swiftly, while others would need further examination Additional investigations could focus in more detail on factors that may influence performance: national ministry conduct (policy inconsistency, weak cooperation among executing agencies); subnational relationships (interaction between intermediate and local tiers of government and among adjacent local governments); integration with operational systems and processes (issues with civil service management, development planning, public financial management); subnational electoral accountability (degree of competition, citizen attitudes); and non-electoral civic engagement processes that affect how residents perceive and interact with subnational governments (accessibility to processes, degree of genuine influence).

Fully exhaustive analysis of individual fiscal decentralization elements is not practical, but there will often be room to improve on the status quo. The analysis can be judiciously selective but should be appropriately broad, inquisitive and adaptive. Even generating a broader sense of the basic issues can help to identify the need for and types of further investigation required and to determine prospective remedies. A conversant analyst will learn to determine evaluation boundaries so as to concentrate on factors that are most valuable for identifying tangible reforms.

Depending on who initiates an investigate analysis and where it leads, some remedial actions will involve different prime actors. The central government, for example, is the actor that must lead in remedying limited subnational empowerment or ministerial interference in subnational affairs. Determined subnational governments can improve their own capacity, pilot innovative approaches

and engage constituents more actively in advancing reforms. Citizens themselves can pursue efforts to press subnational governments to make changes. Such steps may generate support or resistance from others that may require further investigation or action. In some cases, the constraints identified may be insurmountable. If the most productive/practical paths to reform are blocked, potentially less promising but more feasible options may have to be considered.

6. Some Thoughts on Making Progress

This chapter reviews selective issues that are essential for fiscal decentralization but not often sufficiently considered in research and practice in developing countries. The treatment here is not comprehensive and does not offer detailed reform paths. It does, however, highlight integrated factors that impact fiscal decentralization but are often considered separately by specialists who would benefit from collaboration.

There are four key messages. First, decentralization varies considerably across countries due to considerable differences in context, making all but the broadest generalizations difficult. There are typically multiple subnational government levels with varied degrees of empowerment and different relationships with each other. Even with a normatively sound framework, systems may not function according to their design. These variations reflect political economy and bureaucratic dynamics that shape the role decentralization plays and affect which reforms are possible. Fiscal decentralization should be guided by normative principles, but how they can be productively applied depends on country context.

Second, in assessing fiscal decentralization, it is essential to appreciate inherent linkages among related aspects of the intergovernmental system that must function together for effective and sustainable reform. Fiscal decentralization depends on administrative, governance and political factors that are rarely adequately considered in designing and implementing reforms. Taking stock of the overall system does not have to be exhaustive, but it must be sufficiently rigorous to provide an informed perspective on the observed problems, their drivers, and the implications for what is desirable and what is feasible.

Third, there has been insufficient attention to the implementation of fiscal decentralization. The often entrenched and complicated problems that span fiscal, administrative and political factors cannot all be solved at once. A pragmatic approach is to identify binding constraints that could guide reform priorities. Options depend on the specifics of the problem and the actor(s) involved.

Technical considerations and political and bureaucratic dynamics can differ at national and subnational levels and among subnational governments, and they can point to different reform trajectories that must be assessed, negotiated and prioritized. Given the scope of reforms often needed, gradualism is often inevitable, but there are situations in which bolder, more sweeping steps can be taken by one or more levels of government.

Finally, if a modest start is required, a more strategic approach to implementation than reformers might prefer can be productive. Some possible steps include involving an appropriately inclusive set of actors in designing and managing reforms; considering the need and basis for asymmetric treatment of subnational governments; identifying starting points that are likely to succeed; creating an appropriate range of performance incentives and linking some capacity building (supply- and demand-driven) to specific reform measures. These, of course, are not the only possibilities and not all of them may be needed. Again, a viable strategy should be tailored and sequenced to the national and local reform context.

This paper only scratches the surface of a very complex public sector reform arena. Hopefully it may stimulate more academics and practitioners accustomed to thinking about decentralization in certain ways to consider working beyond their comfort zone and collaborate with others who have different experiences and perspectives that may be relevant for their own efforts. Much work is required to advance an understanding of how to research and act on the issues covered here. But more can be done to situate our own research and policy advice in the broader decentralization landscape and incorporate deeper contextual analysis in supporting the design and implementation of decentralization reforms.

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