

**THE ROLE OF SUB-NATIONAL JURISDICTIONS IN ACHIEVING THE
MILLENNIUM DEVELOPMENT GOALS (MDGs)**

Background

Decentralization¹, - the devolution of increased responsibilities to lower levels of government - and empowerment of sub-national jurisdictions (or governments) have been central and significant features of Africa's recent reform efforts. The fiscal system in many countries has been decentralized across levels of government – central, state (provincial), and local government including municipal governments. This trend is visible in countries with federal constitutions and those that do not and is resulting in the strengthening of the autonomy of sub-national governments. The driving argument in favour of decentralization is that it improves efficiency in the provision of public goods and services in addition to promoting and advancing national unity in the context of multi-ethnicity.

The growing emphasis on decentralization in Africa is resulting in significant changes in the administrative and political geography of many countries. It is also determining and re-shaping the modalities of service delivery. In addition to Nigeria, the oldest Federation in the region, there are now at least 5 other countries with Federal constitutions: Ethiopia, Eritrea, Comoros, Somalia, and

¹ There are different definitions of decentralization in the literature. This Concept Note adopts the framework that characterizes according to three different dimensions: i) fiscal decentralization, ii) administrative decentralization and iii) political decentralization. Fiscal decentralization implies handing over to sub-national jurisdictions the authority to raise revenue and to spend in a number of sectors, while political decentralization amounts to entrusting local constituencies and their designated representatives with enough leeway in public decision making. Administrative decentralization means that sub-national entities are given the authority and responsibility to deliver public services subject to supervision by higher authorities.

Sudan. South Africa has a unique semi-federal system insofar as its constitution mandates significant devolution of powers to the regions and to local governments. Countries such as Kenya and the Democratic Republic of Congo are exploring how best to decentralize in order to “bring development closer to the people” and to assuage political tensions. In the rest of Africa, where decentralization is not constitutionally mandated, sub-national jurisdictions such as regional, provincial, urban and district local governments have been created through legislation.

The sum of these processes is that sub-national jurisdictions are becoming increasingly important actors in Africa’s efforts to promote growth and development and their role may be critically vital to progress towards the MDGs, the set of measurable and time-bound goals, agreed to by world leaders at the 2000 UN Millennium Summit, to be reached by 2015. These goals summarize the international consensus around advancing human development and securing a world with less poverty.

With less than eight years to the target date, Africa’s progress towards the targets of the MDGs has been slow and there is a risk that many countries of the region will not meet all the goals by the target date (UN-ECA, 2008). Enormous challenges remain in many areas (ECA 2007, 2008). A key challenge is improving the efficiency of public expenditure, including improving coordination of planning and expenditure programmes of various tiers of government.

Evidence is scant on the contribution of sub-national governments to efforts to achieve the MDGs in Africa. According to Gupta et al (2005), local governments account for almost 70 per cent of poverty-reducing spending in some countries. But there is evidence of failure at the sub-national levels in the provision of public goods and delivery of services. In view of the responsibilities devolved to sub-national governments, it is clear that their actions and the policies that they pursue, especially their tax and expenditure policies, can have a demonstrable impact on growth and development and on the rate of progress towards the internationally agreed development goals, including the MDGs. Indeed, increased devolution could result in much greater within country disparities in progress towards the MDGs.

In light of the preceding, two questions warrant in-depth exploration. First, what does the scorecard on the contribution of sub-national governments to efforts towards reaching the MDGs in Africa look like? Second, how can sub-national jurisdictions play a more effective role in efforts to achieve the MDGs?

This Concept Note explores these questions in order to provide guidance to a research program on the role and contribution of sub-national jurisdictions to efforts to achieve the MDGs in Africa.

II. What have sub-national jurisdictions done to advance efforts towards reaching the MDGs ?

Sub-national governments, defined in this Concept Note to include states (in countries with Federal constitutions), provinces, municipalities, local, and district governments) have been assigned an enormous amount of responsibilities in recent times. In countries with federal constitutions, sub-national governments have their own independent fiscal policies and development strategies that may not be consistent with policies pursued by the central government. In others, sub-national governments, acting as agents of the central government, are expected to spend on education and health, nutrition and sanitation, and on agriculture. How well they have fulfilled these responsibilities will be examined along the dimensions discussed below:

Expanding the provision of public services

Sub-national entities can play a key role both in expanding access to public services as well as guaranteeing the affordability and quality of such services. While varying from one country to another, the division of expenditure responsibilities between the centre and sub-national jurisdictions as well as the weight of different layers of government are enshrined in Constitutions or/and countries' laws. The principle of subsidiarity guided such a division in the most advanced decentralized unitary systems, such as in Uganda, and in federal systems. Sub-national jurisdictions are assigned the responsibility of providing public services, which the centre is less effective to fulfil.

While the provision of national public goods, such as defence, foreign affairs, security, are assigned to central government, other important spending assignments in health, education, road construction and maintenance are on the concurrent list, meaning that both the central government and sub-national governments can spend on them. In other constitutional arrangements, spending on health, education, and sanitation may delegate to sub-national governments by central government. In Uganda, lower level local governments in districts are responsible for providing primary education and health, whereas district councils take care of all education and health services, except in the tertiary (Steiner, 2006). Similarly, in Nigeria sub-national governments are largely in charge of health care, secondary education and most physical infrastructure. They are also, along with the Federal government, responsible for higher education while local governments

are assigned responsibility for providing primary education and local infrastructure (Alm and Boex, 2003).

It is worth noting that some of the functions are delegated to more than one layer of government, in some federal and quasi-federal systems. Nigerian states and South African provinces have concurrent policy-setting powers with the centre in social sectors, public works, operations and maintenance spending and social sectors personnel recruitment. Delegating basic health and education spending assignments to sub-national entities constitutes an attempt to deliver effective and tailored government services to local communities. Ideally, this should improve the prospects of countries of achieving the education, health, and sanitation MDGs, for example.

Furthermore, assigning infrastructure development and maintenance responsibilities to sub-national jurisdictions provides an opportunity to address regional disparities in the distribution of infrastructure, which facilitates the ability of private agents to invest in productive activities and access to employment opportunities. By doing so efficiently and effectively, sub-national jurisdictions can play an active role in reducing poverty.

Expanding local empowerment

Although the evidence of larger local empowerment is mixed, it has been shown that the increased role of sub-national governments has led to more public participation, particularly of under-represented regions or communities, in decision-making process in Uganda and South Africa. This closer proximity of sub-national entities to their consistencies, when accompanied with adequate transfer of competency and resources, improves public accountability and monitoring. This not only forces local authorities to align policies and interventions with local preferences and conditions and respond diligently to local emerging needs but also reduce potential waste in resources as well. As a result service delivery becomes more efficient and cost-effective at the local level. The provision of low-cost and effective government services broadens the access of populations to access social services, thus improving the prospects of countries for achieving the MDGs.

III. How can sub-national jurisdictions play a more effective role in achieving the MDGs ?

An in-depth interrogation of the role that sub-national governments are currently playing will enable a careful examination of the ways and means that their contribution can be made more effective. There are four principal means by which this can be achieved – prudent management of scarce resources; strong

administrative, management and other capacities; inter-governmental transfers, and effective coordination between the tiers of government.

Prudent management of scarce resources

Resources are scarce and even more so in many African countries. As a consequence of decentralization, sub-national governments are controlling a sizable proportion of these resources. For example in Tanzania, local government authorities collect roughly 5% of all public revenues and are responsible for about 20% of public spending². In Nigeria, sub-national governments collectively receive about 48% of federally collected revenues. Hence a key concern is how to ensure that sub-national jurisdiction spending generate the expected outcomes without creating serious distortions, both locally and nationally.

One potential risk of decentralisation is that it could turn into an arena for contest over the distribution of rents, fight for local influence and power and leads to increased elite capture, clientelism, patronage and corruption, which reduce the effectiveness of spending. Also, growing expenditure responsibility of sub-national can dim central government's attempts to meet macroeconomic policy targets that are in line with long-term development strategies. Suppose that the central government recognizes the existence of absorptive capacity and supply constraints, and therefore sets out paths for spending and monetary supply growths that are consistent with preserving competitive real exchange rate³. Growing expenditure and borrowing responsibilities by sub-national governments, could result in the breaching of the identified macro targets. In addition to this, the implementation of sub-national government spending decisions can result in adverse effects, such as congestion effects and beggar-thy-neighbour outcomes.

The challenge is therefore for sub-national governments to strike a judicious balance between responding local needs and minimizing the risk of adverse macroeconomic outcomes that could arise from their raising spending limits.

Capacity building

² <http://www.logintanzania.net/lgafinance.htm>

³ Uncontrolled increases in government total expenditure may cause an appreciation of the real exchange rate, which has the potential to undermine the competitiveness of the non-commodity tradable sector. That implies stymieing efforts to diversify production and export bases and to create productive jobs.

Central public expenditure management (PEM) systems often display serious flaws, and such weaknesses are even more acute at sub-national levels. Limited managerial, technical and financial capacities reduce the ability of sub-national government institutions to effectively commit and administer MDG-related expenditure. Even if technical and financial constraints are addressed, little monitoring and evaluation mechanisms, instigated in part by human capital constraints, political manipulations and inadequate procedures and rules, such as the use of outdated accounting systems and/or the lack of a harmonized system of budget classification and accounting for all levels of government, limit transparency and accountability in public spending management. This reduces the potential of decentralization to translate public spending into improved social outcomes.

There is a need to improve capacities of sub-national governments to formulate, execute and report public expenditure programs. This requires transferring and building sound budgetary institutions, which include adequate and well-trained personnel, harmonized and up-to-date system of budget classification and accounting for all levels of government, and effective monitoring, evaluation and control systems.

Transfer mechanisms to address issues of vertical and horizontal imbalances

Fiscal practices in many countries, with taxes primarily collected by the central government and spending mostly initiated by sub-national jurisdictions, give rise to impressive vertical imbalances at local government levels. That often goes along with potentially important horizontal imbalances among sub-national governments, caused by differences in revenue-collection capacity among these governments. Indeed, sub-national jurisdictions differ in area, population, economic endowments and administrative capacities, which all affect revenue-raising capacity. Large differences exist in Mali and Nigeria between drought-affected northern regions or states and the southern natural resource-rich regions and states. Similar disparities exist in Ethiopia between sparsely populated and pastoral-dominated Afar region and largely populated and agriculture-dependant Oromia region. In the absence of adequate transfer mechanisms, both imbalances could hamper the ability of some of the sub-national governments to achieve the MDGs, thus widening social and economic inequality.

Addressing vertical and horizontal balance requires setting out, through negotiations between central government and sub-national governments on the

one hand, and among sub-national entities on the other hand, transfer mechanisms that are based on stable and transparent criteria.

Coordination and policy coherence

As decentralization requires a transfer of administrative and fiscal responsibilities and therefore the involvement of a large number of public actors, local and central, it might give rise to potentially horizontal and vertical coordination problems among those agencies. This is the more true when there are no systemic multi-tiered coordination mechanisms or if those mechanisms do not function effectively. In such circumstances, the centre tends to retain a greater control over revenue and expenditure decisions, particularly in countries with decentralized unitary systems. The situation is significantly different in federal system countries, where sub-national jurisdictions often strongly resistant to moves from the centre that could limit their autonomy of action.

Vertical regulation mechanisms are essential for monitoring and ensuring that different levels of government fulfil their responsibilities and authority. They bring some clarity between different tiers of government and contribute to aligning local policies and interventions to the national ones. Such mechanisms also allow the priorities set out in MDG-consistent national development strategies, which should derived from national consultative processes and therefore representing the aggregation of local priorities, to be translated into sub-national planning and budgeting. These regulation mechanisms often take the form of Fiscal Responsibility Law, which is applicable to all spheres of government. Adopting a Fiscal Responsibility Law alone is not sufficient to bring about policy coherence. To be effective, the law should convey an appropriate mix of incentives and sanctions as shown in Brazil and the US (Rodrigues Afonso, 2004)

Coordination mechanisms between different tiers of government contribute to building consensus on current and emerging issues, setting priorities and agreeing on a shared programme execution. The medium term Expenditure Framework (MTEF) provides a strategic tool to articulate and integrate local and central government priorities, thus playing a key coordinating role in setting spending priorities.

Other coordination mechanisms are needed on the revenue side. They are essential in working out agreement between central and sub-national jurisdictions as to the levels of revenue to be raised by each level and the amount of transfers

needed to fill potential gaps between revenue and expenditure assignments. Similarly, they facilitate the design and implementation of simple guidelines for local taxes, thus limit the expansion of inefficient local tax instruments.

Further, coordination between different spheres of government is also necessary to ensure an articulation between fiscal policy and monetary and exchange rate policies. These coordination mechanisms provide platform to discuss possible relaxation of macroeconomic policy targets so as to allow increased expenditures in human capital, infrastructure and other productivity-enhancing activities. Since achieving the MDGs may require more expansionary fiscal and monetary policies than the current stances, this platform provides an opportunity to lay out innovative policies and interventions needed to dampen potential inflationary pressures and real appreciation associated with rising spending, exploring ways to address, both at the central and sub-national levels, short-term supply constraints, for instance through increasing the import content of additional spending and better using goods and services in excess supply.

Key issues for discussions

Drawing on the above discussion, a number of issues, critical for understanding and enhancing the contribution of sub-national governments to efforts to achieve the MDGs in Africa, need to be further explored. Among these are:

Fiscal policy at the sub-national level: One of the few policy instruments at the disposal of sub-national governments is fiscal policy, which has important allocative and distributive functions. Given these key features, it will be worth assessing experiences in fiscal policy practices at the sub-national levels across various political systems and their effects on the potential of sub-national jurisdictions to achieve the MDGs.

Constitutions as a coordination constraint: Coordination problem among various tiers of government poses a serious constraint to policy coherence. Reviewing the constitutions of countries, with different political systems and at different stages of decentralization, would help understand the role of constitution as a coordination constraint. It will also be important to interrogate the effectiveness of institutions in countries designed to minimize the risk of coordination failure and ameliorate “hard divisions” established by the constitution between tiers of government in the economic sphere.

Capacity constraints: Building adequate capacities at the sub-national level to carry out larger responsibilities and interact with the center are key to the success of the decentralization in achieving the MDGs. The discourse on the contribution of sub-national governments will greatly benefit from understanding their MDGs-specific capacity constraints and exploring how best they could be attenuated.

Within country disparities terms of progress toward the MDGs: The importance of understanding the role and contribution of sub-national governments to efforts to achieve the MDGs in Africa is even more compelling when set against within-country differences in progress toward the MDGs. It will be vitally important for policy development and implementation to review, for a number of African countries, the situation of sub-national entities with respect to achieving the MDGs, using readily available household survey data.

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