

Concept Note

Intergovernmental Fiscal Relations and Local Government Organization and Finance

Program Justification

The reform of fiscal systems to improve public sector performance in service delivery and establishing a framework of fiscal discipline and accountability at all levels of government has been a major focus area of reform in developing countries in recent years. The development of the WBI program on this subject reflects growing demand from World Bank operations and from client countries for knowledge sharing and learning from each other's experiences.

Public sector governance (of which reform of the intergovernmental finance is an important aspect) is a major area of the Bank's operational work, comprising 13 percent of the \$18.5 billion in new lending in FY03. Over the period 1986 –2001, the World Bank has had programs in support of decentralization in 74 countries. In countries where major service delivery responsibilities have been decentralized to the local level, the ability of local governments to carry out these responsibilities becomes critically important. In this context, improvements in public service delivery, especially health, education and water and sanitation infrastructure are crucial to make progress in attaining the Millennium Development Goals.

The program also reflects a strong demand from clients, where sub-national governments are shouldering greater responsibilities for the delivery of basic public services and managing larger shares of public expenditure. Countries such as Pakistan, Uganda, and Indonesia have undertaken major reforms towards decentralizing expenditures and strengthening the role of local governments. A large number of countries representing all regions have sought WBI assistance for capacity building in this area.

The design of an equitable, efficient and accountable decentralized system requires a deep knowledge of the institutional context and path dependencies in each country. This program, by disseminating conceptual guidance and facilitating learning from each other's experiences on ideas and practices, as well as customizing programs to individual country needs attempts to provide a better understanding of feasible reform options suited to an individual nation that best delivers efficient and equitable public services consistent with citizen preferences.

Objectives

The program aims to strengthen organizational capacity and build consensus and coalitions for reform in country led initiatives for improved intergovernmental fiscal relations and better local government performance. This goal is to be accomplished by:

- (i) motivating, encouraging and training individuals in the use of analytical frameworks and tools to evaluate, design and implement institutional and

administrative reforms related to intergovernmental fiscal relations and local government organization and finance;

- (ii) facilitating global, national, regional and local dialogues on pathways to reform to infuse a spirit of learning from each others' experiences.

Contents and Design

The program is organized under two broad themes:

Intergovernmental Fiscal Relations: Intergovernmental fiscal relations covers all aspects of expenditure, revenue, and service delivery arrangements between the central, intermediate, and local levels of governments, including the assignment of expenditure, taxing and regulatory responsibilities frameworks for the delivery of public services. In order to sustain growth, reduce poverty (especially among persons living in less developed regions), and provide vital public services, governments need to take a closer look at fiscal arrangements and other institutional reform options to facilitate efficient delivery and equitable access to public services. In each country in which the program is offered, the content of the delivered course is customized to the client's needs. The program covers the following topics and in each case provides a conceptual framework in addition to an analysis and discussion tailored to the country's institutional architecture .

i. The Role of Government

This sub theme covers economic rationale for government intervention and addresses questions such as: What is the role of government? What are its objectives? – vertical equity, horizontal equity, relative emphasis on social services, access to the poor and disadvantaged groups, protection of women and minorities?

ii. The Decentralization of Government Authority

. What are the constitutional or legislative divisions of fiscal powers? How are these powers exercised? What are the deviations in de-jure vs de-facto responsibilities? What are the channels of federal influence on sub-national policies and vice-versa? What are areas of conflict among different levels of government?

iii. Expenditure Assignment

What is the current assignment of spending and regulatory responsibilities? Does the division of powers follow subsidiarity principle, i.e. decision making by the government closest to people unless there is a convincing case for higher-level assignment?

iv. Macroeconomic Management

Are soft budget constraints a matter of concern? Has there any fiscal responsibility legislation embodying fiscal rules for fiscal discipline and coordination? What are the institutional rules for securing common economic union e.g. constitutional or legal provisions preventing discrimination or barriers to trade and factor mobility by sub-national units?

v. *Revenue Assignment*

It covers the conceptual framework for assigning revenue raising powers among different levels of government and addresses questions such as: What are the current assignments for raising revenues at various levels, central, intermediate and local – who determines the base and rates and who collects revenues? Are there any tax collection agreements? Are there any joint taxes? Are there any tax base sharing arrangements? What is the degree of tax autonomy at sub-national levels? What are the current issues in tax assignment and tax administration? Is the tax system harmonized?

vi. *Revenue Sharing*

Are revenues shared between higher and lower level governments? Are revenues shared across sub-national governments of the same tier? If so, what are the sharing arrangements?

vii. *Intergovernmental Transfers*

Are there vertical and horizontal imbalances and how are these overcome? How are the fiscal transfers structured? What types of grants are used – general purpose, specific purpose (matching and non-matching)? What is the relative importance of grants in national and sub-national budgets? Are the designs consistent with objectives? Are fiscal equalization transfers based upon an explicit standard? What is the basis of equalization – fiscal capacity or fiscal need? How are recommendations made on the pool and allocation criteria, and who makes the final decision? How are transfers to provincial/state and local governments structured? What are the formulae? What is the impact of transfers on efficiency and equity of service delivery and inter-jurisdictional equity?

viii. *Finance and Provision of Infrastructure, Health, Education, Poverty Reduction, Social Protection*

What is the service delivery framework? Does government carry it out alone, in partnership with civil society, or through competitive service delivery? How is infrastructure financed - what is the dominant mode and why? How is the delivery of services measured and monitored?

ix. *Institutions of Intergovernmental Relations:*

What is the institutional setting for fiscal policy? How are policies coordinated among constituent units?

2. ***Local Government Organization and Finance:*** Major issues explored in this module include institutional arrangements and local government structures, local

government responsibilities, and autonomy in carrying out responsibilities. Other topics include the special circumstances of urban, rural and metropolitan government finance, local budgeting and financial management, finance and provision of local public services, and approaches to public management.

Prior to embarking on any policy changes to strengthen local governments, an understanding of the institutional context of local government in each country is required. This knowledge is essential to determine feasible reform options as well as understanding the equity and efficiency implications of any proposed changes. For the following topics, the program provides a conceptual framework in addition to an analysis and discussion tailored to the country's institutional framework and particular circumstances.

i. Overview of local government system and structures

How many tiers of local government are there, and how they are structured? How are local administrations selected? What is the legal status of local government? Can they be dissolved by the central government? What roles do higher-level governments have in the affairs of local government?

ii. Local government service delivery and regulatory responsibilities:

Which public services are local governments responsible for providing? What regulatory responsibilities to local governments have? What is the higher government's role (if any) in the provision of these services? How are services financed? Are they delivered solely by the public sector, or with private sector participation? Do the structure and financing of local governments create incentives for accountability in the provision of local public services? Is the delivery of services efficient and equitable?

iii. Local revenues:

What taxes/charges are local governments permitted to levy? Does local government have the ability to set the base and rate of local taxes? What taxes/charges are shared taxes? How are shared taxes administered? How is the revenue shared? What are the different grant programs that exist for the transfer of revenues from higher level to local governments? What are the goals of these programs (achievement of national minimum standards, equalization, gap-filling, general purpose, special purpose, etc.)? What percentage of local expenditures are finance by transfers?

iv. Financing capital investment:

Are local governments allowed to borrow? What are the borrowing limits, if any? Are local governments allowed to take loans from banks (domestic or foreign)? Are local governments allowed to issue bonds in domestic and/or foreign bond markets? What is the higher government role? Is higher government approval required for local government borrowing?

v. Local financial management

What is the approach to budgeting (line item, performance, etc.)? What is the process, and who are the players in budget formulation? What is the budget cycle? What is the approach to accounting and financial reporting? How is capital budgeting handled? Is each local government fiscally sustainable? Do local governments face contingent risks or unsustainable debts?

vi. Local public management

Do local government officials have the ability to hire, fire, and set the terms of employment of local civil servants? What is the framework to deal with corruption and malfeasance? How is the performance of government measured and monitored?

Delivery Modes

The Intergovernmental Fiscal Relations and Local Government Organization and Finance Program will be delivered through seminars, workshops, conferences, specialized courses, DL and web-based courses. For this purpose, a “core” set of modules has been developed on major topics. (See Annexure 1). Each module is accompanied by a key background report/paper; references/bibliography, and where appropriate, exercises and tools such as the spreadsheet simulation models. This format has been adopted with a number of key objectives in mind. This includes the ability to tailor the course to suit different audiences with varying skill needs. These modules can also be used in courses where the main focus of the capacity building activity is to generate an important policy discussion or debate.

The contents of individual programs and target audience will be determined in consultation with the World Bank country team and partner institutions of member countries. For focus countries, contents and reading materials for the learning events are tailor made to suit their specific circumstances.

While the program offerings can be demand driven by requests from member countries, they can also originate from need assessment exercises and capacity development requirements associated with Bank lending. For instance, WBI’s current intergovernmental fiscal reform program in Russia is the capacity building component of the Bank’s Regional Fiscal Technical Assistance Project (RFTAP) to Russia.

Exit Strategy

This program is expected to continue indefinitely. However, it will be phased out of individual countries as local capabilities for such analysis is achieved. This capability will be developed using the following strategy:

- Prepare a core group of future trainers (TOTs) in the country who could carry out capacity building efforts after WBI/WB projects come to an end.
- Leave a comprehensive and up-to-date manual/text books/modules, and other training material prepared in local languages.
- Build capacity of local partner institutions (e.g.: GIPA in Georgia, Center for Fiscal Policy in Moscow, Institute of Policy Studies in Sri Lanka, Wuhan University, Indian Institute of Public Administration, Delhi (IIPA) , National Institute of Public Finance and Policy, New Delhi ,(NIPFP), Indian Institute of Public Management, Bangalore (IIM), Administrative Staff College of India, Hyderabad (ASCI), etc.). These local partners will be encouraged to play a major role in future training/capacity building efforts and to establish links with other regional and local partners to participate in region-wide activities carried out by the Bank, WBI, and other multilateral public agencies.
- Training courses delivered via web (web-based-courses) where local partner institutions will gradually assume the full responsibilities to both maintain and improve the delivery to reach a wider audience and relatively lower costs.

Audience/Participants

Various courses to be delivered under this project will be aimed at officials at central, state and local levels, as well as trainers at the partner institutions.

Targeted Region

The program covers all regions of the world with greater concentration of programs in Africa, Asia, LAC and Eastern Europe and Russia.

Partners

All programs are designed and delivered in partnership with local and occasionally also involving international partner institutions. The program further builds communities of practice through networking developing country institutions with other institutions with similar interests and objectives in developing and industrial countries.

Synergy with other WBI Programs

We are working in collaboration with both the Urban and City Management and the Community Empowerment and Social Inclusion programs in developing learning materials and case studies that will become the core learning materials for a module on Citizen Participation in Sub-national Budgeting.

Peer Review and Quality Control

The course modules are prepared by well-known scholars in respective subject area and are reviewed by the task manager. Additional inputs on the quality and coverage of the

module are provided by other resource persons who regularly participate in the workshops. Based on these inputs as well as the feedback from course participants, these modules are regularly updated and refined to both keep up with the growing literature and the specific requirements of different clients/audiences. Most of the course modules are often published as working papers or journal articles or in book form either within the Bank or outside. The process is the same with regards to courses prepared in local languages (e.g., Russian) where the authorities identified for preparing the modules have been associated with high quality academic institutions –both local and foreign – and have conducted similar work programs for a number of reputed international and bilateral organizations.

Leverage with Bank Operations

The program on Intergovernmental Fiscal Relations and Local Government Organization and Finance helps improve Bank’s policy advice and contributes to better design and effective implementation of Bank’s operation through knowledge sharing and consensus building.

Learning Outcome Indicators

The Intergovernmental Fiscal Relations and Local Government Organization and Finance program measures the outcome of its learning activities in a variety of ways. Level 1 evaluations are used for all activities to receive participants’ feedback and initial evaluations. In a few cases, level 2 evaluations are used to determine participant satisfaction and outcomes more rigorously. The World Bank country teams and other stakeholders are also informally surveyed on the relevance and impact of PSG programs. The programs are also occasionally formally reviewed by the Operations Evaluation Department of the Bank.

Impact Indicators

The program’s main goal is to support dissemination of knowledge on principles and practices in intergovernmental fiscal relations and local government organization and finance reforms. The impact of such a dissemination effort can be measured through:

- Time spent in participating in WBI learning events by various stakeholders measured by participant days;
- Rating of overall usefulness of learning events by participants;
- Skills acquired as indicated by level 1 evaluations and course examinations;
- Discussion of intergovernmental fiscal relations and local government organization and finance issues in government and non-government fora, popular media and professional journals in developing countries;
- Coverage and quality of World Bank policy advice and lending relating to public governance reforms
- Analysis of public sector reform issues by institutions whose staff received the training; and

- Creation and dissemination of knowledge products e.g. publications, CD-ROMs etc.

Monitoring and Evaluation

All programs will be subjected to Level 1 and selected programs to level 2 evaluations. In addition, a special survey of Bank and other stakeholders will be commissioned.

Key Text Book References

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