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Decentralisation in Zambia

A comparative analysis of strategies and barriers to implementation

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A Comparative Analysis of Strategies and Barriers to Implementation

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1. Introduction

Decentralisation reforms have been at the centre of the public policy agenda for multiple decades. International institutions such as the World Bank embrace it as one of the major governance reforms on their agenda. In addition, policymakers and researchers alike consider decentralisation in China and India to be a determinant of their recent economic success stories (Bardhan, 2002). The classical case in favour of decentralisation highlights the benefits achieved through increased flexibility under localised decision-making while cautioning that local decision makers might fail to internalize the externalities created through their decisions. This notion, first formalized by Oates (1972), hence highlights that decentralisation is beneficial when tastes are heterogeneous and there are no spillovers across jurisdictions.

In more recent theoretical work, this view has been extended to also incorporate transaction and agency costs. Seabright (1996) argues that local governments have an informational advantage over central governments as it is less costly for them to acquire information on preferences and production costs. In addition, local governments might have stronger incentives to make use of their superior information as they are more accountable to local recipients of public services. Besley and Case (1995) suggest that increased accountability can arise due to competition between local jurisdictions, because people can vote with their feet and through yardstick competition.

Some caveats to this analysis exist. On the one hand, Bardhan and Mookherjee (2000) point out that increased accountability of local decision-makers can backfire, as they might be more prone to local elite capture. On the other hand, competition between local jurisdictions is constrained by the presence of high moving costs and local specialisations in public good provision.

Two additional key determinants of the success of decentralisation reforms exist. On the one hand, as pointed out by Bardhan and Mookherjee (2000), the extent of fiscal autonomy given to local governments determines the extent to which decentralisation reforms are prone to elite capture. When local governments don't only have power to determine expenditure patterns but are also given tax collection power, the risk of elite capture is high. This is because the ability to raise tax revenue not only allows captured decision-makers to redistribute funds from all citizens to the capturing elites, but may also allow local elites to evade taxes such as local property taxes. A reliance on user fees can reduce the extent of cross subsidization as only public service recipients can be asked to contribute to the cost of the service. Yet, user fees are often not feasible, for example when asking the recipients of the service to contribute to its cost would defeat the purpose of the program. This could be the case for anti-poverty programs aimed at redistributing income from rich to poor households, for example. An alternative that also reduces the risk of elite capture is a reliance on grants from the central government, which disconnects expenditure devolution from decentralisation in revenue collection. While central government financing requires little administrative capacity at the local level it also generates weak incentives for cost savings. When trying to maximize production efficiency as part of a decentralisation reform, policymakers hence face a trade-off between cost-minimization and the risk of elite capture.

The second key determinant of decentralisation success is the ability of local governments to handle the assigned tasks. As has been pointed out by Bardhan (2002), disparities in technical and administrative capacity between the central and the local governments are the main cause of unsuccessful decentralisation reforms. The challenge with decentralisation reforms is hence that central governments don't know *what to do* and local governments don't know *how to do* it.

Given those countervailing theoretical arguments, the Zambian government has requested an empirical investigation that evaluates the risks and opportunities associated with decentralization. This paper reviews the literature on decentralization reforms in four Sub-Saharan African countries (Tanzania, South Africa, Sierra Leone and Ethiopia) to understand which factors can contribute to a successful decentralisation reform and how the design of reforms affects their impact.

The four countries that this review focusses on were chosen because their context is comparable to Zambia and they have experienced comprehensive decentralization reforms which produced mixed results which maximises learning opportunities for Zambia. Today, all countries have a de-jure system in which the administrative responsibility for health, education and infrastructure has been devolved to local government's authorities (LGAs). In addition, LGAs in all focus countries have (limited) revenue raising and expenditure power.

1.1. Focus Country Summary

Table 1 provides summary information about the focus countries. In order to assess the comparability of the focus countries to the Zambian context, it also benchmarks the information to Zambia. The table puts a particular emphasis on the political structure of the countries, as the literature considers this to be a major determinant of successful decentralisation reforms.

The indicators highlight the dimensions that determine successful decentralization in which the focus countries are comparable to Zambia. In particular, we focus on three dimensions: Aggregate economic activity, the political system, and trade. First, in terms of aggregate economic activity, column 2 in table 1 highlights that Zambia is comparable to Tanzania, Ethiopia and Sierra Leone, whereas South Africa has a substantially higher GDP per capita. South Africa also employs a higher fraction of GDP as government expenditure than the other focus countries and Zambia. Column 3 shows that including South Africa is still important to understand the Zambian context, as its democratic system is most comparable to Zambia. In addition, column 4 highlights that, as opposed to Tanzania and Ethiopia, Sierra Leone, Zambia and South Africa are all export based economies. As such, depending on the dimension of interest, all focus countries provide relevant comparisons to Zambia.

Table 1: Focus Country Overview

Country	GDP per capita in PPP US$ (2015)	EIU Democracy Index (scale from 1 to 10, US: 8.11)	Dominated by single party?	Merchandise trade (% of GDP-2015)	Government Expenditure (% of GDP-2015)
Tanzania	2,667	5.77	Partially	35	19
Ethiopia	1,626	3.72	Yes	37	20
Sierra Leone	1,591	4.56	No	49	20
South Africa	13,165	7.82	Yes	60	34
Zambia	3,853	6.39	No	73	26

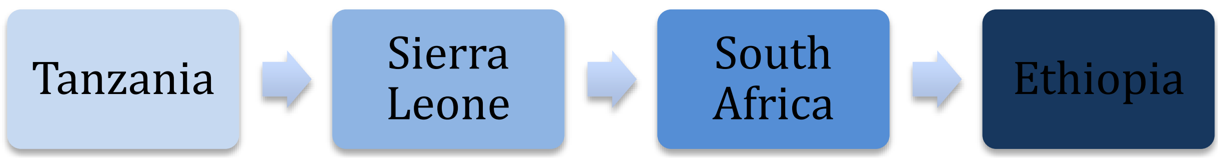
Sources: GDP per capita and trade figures-World Bank World Development Indicators; Government expenditure figures – International Monetary Fund; Democracy Index – Economist Intelligence Unit

1.2. Decentralisation Reform Overview

In all four countries decentralization reforms shared three characteristics. First, similar to the Zambian decentralisation plans, reforms in the focus countries involved the devolution of basic service delivery powers to local governments. Second, in all cases the central government retains authority over policy and standard setting in order to assure a minimum quality level of public service delivery. Finally, while all focus countries allocate some revenue collection power to local governments, financing of LGA activities primarily occurs through central government grants.

Decentralisation reforms in the focus countries had various levels of effectiveness. Figure 1 presents a proposed ranking, with darker colours indicating more successful decentralization reforms:

Figure 1: Ranking of Decentralization Reforms



Tanzania had the least effective experience. LGAs in Tanzania were established in 1982 and have since then sequentially received increasing administrative power. The current local government framework has been in place since 1996 and was comprehensively reformed in 1999. As part of this reform LGAs were assigned responsibility over basic service delivery functions such as primary health and education, agricultural extension, local water supply and road construction. Local government staffing and planning is still primarily controlled by the central government, which is also the main provider of LGAs' funds. Tanzania's decentralization efforts are widely considered to have been ineffective at best, and destructive at worst. As the major decentralization reforms weren't driven by a political will to decentralize, but can be partially considered a response to external (donor) demand, its ability to succeed was limited from the start. The main shortcoming of the Tanzanian decentralization efforts is that the decentralization was never fully executed and instead created breaks in the chain of command that now significantly limit service delivery. Local governments rely on central government funding, capacity and structures to deliver public services, yet there are no formal mechanisms that allows central government ministries and local government agencies to cooperate (Fermet-Quinet et. al., 2008; Venugopal and Yilmaz, 2010).

In contrast to Tanzania, Sierra Leone embarked on a self-initiated decentralisation reform after the end of the civil war in 2002 as a newly instated Truth and Reconciliation Commission called for more locally inclusive policies. The main motivations for the decentralization reform were to reconfigure political institutions to reduce risk of further sources of conflict and to enhance government legitimacy and increase political support by taking power away from local chieftains and strengthening LGAs. As part of this reform, Sierra Leone recreated the institutions of local councils and formalised traditional chieftains, both of which had been abolished in 1972. The government then proceeded to devolve administrative power over primary and mid-secondary education, primary and secondary health facilities, roads, agriculture, water and social welfare functions to the local institutions. This highlights a key positive aspect of decentralization: In ethnically fractionalized states, such as Sierra Leone, decentralization can work towards overcoming ethnic tensions as it provides autonomy to communities that avoids sources of friction.

LGAs are primarily financed through a system of inter-governmental transfers. Decentralization has, however, been slower then expected, with especially the decentralisation of road construction still facing significant political constraints due to an unwillingness of the central government to limit its authority. Given those constraints, the evaluation of Sierra Leone's decentralisation efforts is generally mixed. In particular, existing evidence finds no effect of decentralisation on health care coverage and education indicators. In addition, staff attendance in health and education facilities has decreased post-decentralisation, possibly due to a lack of capacity to monitor attendance in the LGAs (Edwards, Yilmaz & Boex, 2015; Srivastava and Larizza, 2011).

Decentralization in South Africa was initiated as a response to challenges after the end of Apartheid and was needed to reincorporate the former homelands ('bantustans') in the country. Decentralisation was finalised as part of the post-Apartheid constitution, passed in 1996, which allocated social service provision powers to LGAs while allowing the central government to assist through coordination and policy making. A particular characteristic of the South African decentralisation process is that it devolved decision making power to two different sub-national layers of government. On the one hand, provincial governments are responsible for the administration of major social services such as education and health. Districts councils, on the other hand, organise infrastructure related service provision, such as water, sewerage and electricity provision. While there is some evidence that the devolution of power in South Africa has improved the targeting of HIV treatment expenditure to areas most affected, strong influence from the ruling African National Congress limits de-facto local autonomy and therefore LGAs' ability to tailor public services to local needs (Wittenberg, 2003).

Finally, the literature widely considers the Ethiopian decentralisation attempt a successful reform (e.g. Halvorsen, Smith and Shenkut, 2005). Decentralisation in Ethiopia started after the end of socialist rule in 1991. The process was primarily driven by the Ethiopian People's Revolutionary Democratic Front[1] which aimed to reverse previous policies of homogenisation, in order to assuage regions and ethnic groups demanding increased control and participation (Cohen, 1995; Turton, 2006). The reform was completed in 1995 with the passing of a new constitution that recognized the local right to self-determination and created a federal structure. As part of the constitutional reform, LGAs were given full responsibility over basic service delivery functions, including primary education, agriculture, health, water, sanitation, roads. Similar to the reforms in the other focus countries the federal government retains authority over setting policies and standards in the devolved administrative areas. Given positive experience with the constitutional reform, decentralisation was extended in 2002 when a subset of decision powers was devolved further from regional states to local level districts ("Woredas"). Local service delivery is primarily funded through (ear-marked) block grants from the central government. Evaluations of Ethiopia's decentralisation experience

[1] The EPRDF is the ruling party in Ethiopia that was formed out of a coalition of militias that overthrew the military junta in 1991.

point to decentralisation having improved the performance of the public sector, both through increased efficiency in the use of resources and enhancing the outreach of public service delivery.[2] As an explanation for this success the literature primarily points towards the existence of strong party ties between local and central government officials that facilitate the flow of information and generate strong incentives for local officials to enhance service delivery (e.g. Khan et. al., 2014b).

2. Analytical Approach

The structure of this literature review is based on the methodology developed in Yilmaz, Beris and Serrano-Berthet (2008). The main premise of this framework is that successful decentralisation can only be achieved if it sustainably implements and enforces local discretion and local accountability. The idea behind this premise is that local governments need the autonomy, means and incentives to respond to citizens' demands. At the same time, citizens require the ability and opportunity to demand accountability from their LGA representatives. We apply this framework to the focus countries in order to identify the characteristics of decentralisation reforms that determine their success. We perform the analysis of the literature separately for administrative and fiscal decentralization, focussing first on the determinants of administrative autonomy and accountability before turning to fiscal autonomy and accountability.

3. Administrative Decentralisation

The framework developed by Yilmaz, Beris and Serrano-Berthet (2008) identifies a number of factors that determine the extent to which LGAs have de-facto autonomy over administrative issues. This section will focus on a subset of two factors: First, local governments need to have the de-jure and de-factor power to design and implement local policies. Second, the central government needs to devolve HR management functions to LGAs. The following section will discuss challenges with administrative autonomy separately for those two areas.

[2] For example, a $1-dollar increase in decentralised expenditure is associated with a 3.7% increase in educational enrolment rates (Khan et. al. 2014a).

3.1. Risks in Devolving Policy Making Power

Challenges with decentralisation reforms can be traced back to shortcomings in the allocation of autonomy to LGAs to design and implement local policies. In general, the design of decentralization reforms in focus countries either formally or informally restricts local government autonomy, therefore limiting LGAs' ability to use superior information to target public expenditure and public service provision. In Sierra Leone, for example, devolution of policy making power is undermined by a "divide and rule" strategy employed by the central government to keep local councils weaker than they could be. This strategy allows the central government to control LGAs by playing off traditional authorities ("chieftaincies") against local authorities. The resulting vacuum of power is facilitated through the design of the decentralisation reform, which remained vague about the formal division of power between LGAs and chieftaincies. This ambiguity is supported through a 2010 amendment of the decentralisation reform in which the national government established a "district officer" position at the local level that provides a direct link between national government and chieftains, therefore bypassing LGAs and undermining the power of local councils (Srivastava and Larizza, 2011).

A similar situation has been documented for South Africa, where competencies are more dispersed at the local level. In particular, responsibilities are spread over three layers of local government: provincial governments are responsible for the administration of major social services (especially education and health), whereas infrastructure services are administered by district level councils. Overlapping competencies create policy uncertainty that reduces local autonomy. In addition, district councils have passed service delivery functions on to local councils but maintain the responsibility for their financing. This division was initially born out of the necessity to address administrative capacity gaps at the local council level but has persisted even after the capacity had been built and now creates unnecessarily long chain of commands (Wittenberg, 2003).

While local administrative autonomy is limited through mostly informal channels for Sierra Leone and South Africa, a number of authors suggest that the major risk to decentralization in Ethiopia originates in the formal channels developed by the central government (Yilmaz and

Venugopal, 2011). In particular, strong central party influence significantly restricts local autonomy, as local government officials are incentivized by and accountable to the (central) party administration. The performance of local level development agents, for example, is primarily measured through the achievement of planning targets set centrally by the party (Dom and Mussa, 2006). Taken together, this experience therefore suggests that understanding the motivations of central government decision makers, and making sure that central stakeholders are committed to devolving power to the local level, is crucial.

3.2. Risks in Devolving HR Management

Similar to the devolution of power to design and implement local policies, the decentralisation of staffing decisions is also limited in the focus countries. In Tanzania, for example, all district level operations are overseen and managed by the District Executive Director ("DED") who is appointed by the central government. The DED can himself appoint the executives of lower level LGAs, leaving no space for local decision making in appointing executives. This pattern of central influence also exists for non-executive positions. Tanzania's LGA staffing decisions are made by local employment boards, which have 3 members from the central and 2 members from the local governments, therefore limiting local staffing autonomy. Similarly, doctors, secondary school teachers, accountants, nurses and agricultural extension officers are typically recruited by the responsible central ministry and then deployed to LGAs (Venugopal and Yilmaz, 2010).

A similar situation exists in Ethiopia, where all local hiring and firing decisions require approval from higher levels of government. For example, regional bureaucrats need to approve hiring decisions for teachers and zonal as well as regional executives have the ability to overrule woreda level hiring decisions. Similarly, the EPRDF retains a decisive role in the appointment of high-level executives at the local levels (Yilmaz and Venugopal, 2011).

3.3. Overcoming Limited Administrative Autonomy

A possible explanation for de-facto low levels of administrative autonomy is the prevalence of capacity constraints at the local level. Experience from the focus countries shows that especially skills necessary for budget execution, such as planning and accounting skills, as well as financial and HR management skills, are in short supply at the local level. For example, an assessment of LGA performance in Tanzania shows that only 8.6% of councils have high financial management capabilities, with most rural councils receiving the lowest possible rating (World Bank, 2001). A more recent assessment reveals that while the situation has improved for some LGA's, particularly those close to urban areas and the capital city, inadequacies of key professional staff with some of the above skills, such as accountants, continue to persist, particularly in rural councils (Parliamentary Centre, 2011).

In addition, LGAs are constrained by insufficient management skills. For the case of South Africa, limited staffing ability of local governments especially for elected positions led to inadequate staff establishments (Koelble & Siddle, 2012). This did not only result in a high rate of vacancies in local governments but also led LGAs to install non-elected bureaucrats in leading (political) LGA position, therefore undermining local accountability (Wittenberg, 2003). Similarly, Sierra Leone has experimented with decentralized recruitment of staff but has resumed central recruitment after it was found that the skill sets of the newly recruited staff were far below those of (local) staff assigned by the (central) Office of the Establishment Secretary (Kanu, 2009).

Countries have experimented with multiple ways of overcoming human capacity constraints. First, development partners in Tanzania provided computerised systems for accounting, planning, M&E and budget reporting as part of the decentralization reform. Donors also supported the hiring of technical advisors who are tasked with supplementing a lack of administrative capacity at the local government level. While there exists no evaluation for this program, anecdotal evidence suggests that while this program was effective in providing the necessary infrastructure for decentralization, it did not allow LGAs to satisfactorily fulfil their duties in the long run (Frumence et. al., 2013).

A second capacity building measure regularly employed by central governments involves the provision of training to local government staff. This is either organized through capacity building grants allocated to LGAs or through standardized countrywide training provisions. The evidence on such programs is generally positive. Tanzania has so far invested a total of 6 billion Tanzanian Shillings (approx. 3 million USD) in capacity building grants, mostly targeted at improving planning and financial management skills. The literature perceives this program to have been successful in improving the level and targeting of service delivery (REPOA, 2008). Similarly, the Ethiopian central government maintains training programs for elected LGA officials that focus on agricultural development, basic management, financial management, integrated rural development and ethics and are generally reviewed positively (Beyene, 2000).

The South African government undertook a special capacity building measure to train LGA staff on effective public service provision. As part of this program, LGAs cooperated with private companies tasked with training LGA personnel in the area of water management. This measure has been evaluated very positively as it generated local government capacity and also supported emerging companies in the area of water management (Elhiraika, 2007).

Finally, all focus countries have also experimented with transferring experienced central government staff to LGAs in order to fill capacity gaps. While this is generally viewed as an effective measure to overcome human capital constraints, central government staff is typically unfamiliar with local conditions. This program therefore reduces LGAs' ability to target its services to local demand conditions.

While capacity building attempts are generally viewed favourably in the literature, two major challenges have arisen. First, when wages for LGA staff are fixed between locations, qualified staff tends to sort into urban or more developed areas, leading to disadvantages for poorer regions. It is hence key to devolve de facto autonomy over staff compensation to local councils, and assure that financing for compensation is readily available (see also section on financial decentralization below). Second, LGAs don't only compete with each other but also with the private sector, given that especially budget execution skills are also crucial for the success of businesses. As such, attrition, especially after capacity building programs have been completed, is a major concern (Girishankar et. al., 2006). The economic literature highlights a number of ways that retention of government workers can be assured. First, increased compensation and performance pay can foster retention (e.g. Deserranno, 2016; Dal Bo et. al. 2013). In addition, opportunities for career development, continuing education, , resource availability and recognition/appreciation have been shown to reduce health worker attrition in various developing country contexts (see the literature review by Willis-Shattuck et. al., 2008).

3.4. Achieving Local Accountability after Administrative Decentralization

When considering the determinants of local accountability, Yilmaz, Beris and Serrano-Berthet (2008) separate public and social accountability. In their terminology, public accountability refers to the accountability of leading administrators at the local level to their top administrative officers or auditors. Social accountability, on the other hand, refers to community-based auditing of the quality of service provision.

Focus countries' experiences with public accountability are mixed. On the one hand, high levels of public accountability are a possible explanation for the positive performance of South Africa's and Ethiopia's decentralization reform. To overcome communication challenges, the South African central government has established sector specific intergovernmental relations committees of ministers and members of provincial councils. While such committees are only consultative with limited executive powers, they can still provide incentives for service providers to increase accountability and enhance information flows (Eaton, Kaiser and Smoke, 2010). Similarly, public accountability in Ethiopia is driven by strong incentives provided by the centralised party structure that makes career progression of civil-servants dependent on service delivery outcomes (World Bank, 2005; Yilmaz and Venugopal, 2011).

While accountability in Ethiopia works for service providers, it works significantly less for local councillors tasked with overseeing executive policy implementation and service delivery. As they are partially accountable to higher level (party) bureaucracies and partially to local electorates, the aforementioned incentive channel is weakened, therefore undermining public accountability (Khan et. al., 2014a). A similar picture emerges for Tanzania where all of the executive staff is centrally appointed but monitored by local level councils. As local councils have no instruments to discipline centrally appointed staff and there are no formal linkages that allow the central government to effectively monitor local level executives, an agency problem arises. This set-up therefore generates weak incentives for service providers which undermines the effectiveness of decentralisation reforms (Venugopal and Yilmaz, 2010).

Achieving social accountability has proven to be significantly more difficult than achieving public accountability in the focus countries as there is little evidence of local citizens effectively sanctioning poorly performing local government officials. In Tanzania, for example, the standard method to assure social accountability is through village assembly meetings. While this assembly has the de-facto authority to overrule village leaders' decisions, Venugopal and Yilmaz (2010) report that there are no examples of such behaviour. At the same time, village assemblies are not equipped with the authority to sanction local council members, therefore limiting opportunities for social accountability.

A success story supporting the effectiveness of social accountability mechanisms comes from Ethiopia, where structured feedback sessions that brought together citizens and service providers significantly strengthened citizen participation and improved service delivery outcomes. Similarly, grievance redress mechanisms through a designated ombudsman, formalised citizen feedback mechanisms and joint service improvement plans led to improvements in basic service provision (Khan et. al., 2014b). However, Ethiopia's strong party leadership, one of the drivers of successful public accountability, also undermines more traditional social accountability channels. Traditionally, village level assembly ("kebele") meetings used to be the first point of contact for citizens to provide feedback about service provision. In the recent past, it has however been argued that kebeles have come to be primarily controlled by party cadres, and are hence unable to act as a platform that supports social accountability (Pausewang et. al., 2002; Human Rights Watch, 2010).

4. Fiscal Decentralisation

The framework developed by Yilmaz, Beris and Serrano-Berthet (2008) identifies three factors that determine the extent to which LGAs have de-facto autonomy over fiscal issues. First, LGAs require a meaningful level of expenditure responsibility. For LGAs to be able to respond to local needs, it is crucial that they retain discretion to make their own expenditure allocation decisions. Second, LGAs need to have the autonomy and capacity to collect their own revenue. LGAs should have rate-setting authority over locally assigned revenues and should be allowed to define their own tax base. This argument is associated with the notion that local governments are more accountable when relying on their own tax bases (Faguet, 2008). Finally, LGAs need to receive financing assistance through transfers. This is because own-tax revenue typically isn't sufficient to cover LGAs expenditure requirements. To bridge this gap, local authorities rely on transfers from the central government. Maintaining autonomy and accountability in the design of this transfer system has proven to be a major challenge in focus countries.

4.1. Risks in Assigning Meaningful Expenditure Autonomy

Expenditure autonomy is typically limited by central regulation. In particular, experiences from the focus countries show that the de-facto expenditure autonomy allocated to local governments differs substantially from the de-jure status. In Tanzania, for example, while LGAs have de-jure autonomy over expenditure allocation, 78.5% of local government spending is recurrent, mostly due to high staff costs, leave little space for decentralised expenditure targeting.

Expenditure autonomy is mostly undermined through the employed financing mechanisms and, among those, primarily through the reliance of LGAs on central government transfers. With the aim of increasing effectiveness, such transfers are typically earmarked or are associated with prescribed sector-specific maximum spending. In Tanzania, for example, LGAs have the de-jure autonomy to determine the wage structure for their employees independently. Yet, spending limits on wages, together with a transfer allocation that is dependent on the number of LGA employees, typically prescribes a specific level set by the central government (World Bank, 2001).

A similar picture emerges for the case of South Africa, where LGAs are responsible for financing the salary of staff at the local level through unconditional grants received from the central government. While this set-up allocates a high de-jure autonomy to local governments, central regulation de-facto limits local discretion by describing salary levels for local staff and making transfer allocation conditional on the expected wage bill, leaving little space for discretionary budget allocation (Wittenberg, 2003).

4.2. Risks in Local Revenue Collection

The framework developed by Yilmaz, Beris and Serrano-Berthet (2008) suggests that the ability of local level governments to finance their operations through own revenue sources is a crucial determinant of LGA autonomy. Experience from focus countries does, however, reveal three challenges with local revenue collection.

First, levels of locally collected revenue are generally low. For example, while Sierra Leone's LGAs finance 25% to 30% of their total expenditure through self-collected revenue, Tanzanian LGAs only achieve a mere 6.9% (USAID, 2010; Searle, 2009). This is driven by the fact that in the absence of transfers only narrow tax bases can be put under the control of local governments as the taxation of large tax bases, such as corporate profit, generates spillovers between LGAs that aren't internalized under a decentralized system. In addition, devolution of income and corporate tax bases significantly exacerbate the inequality between urban and rural LGAs. Given those constraints, only narrow tax bases, such as property value, are typically delegated to local governments. Those bases, however, are too narrow to finance the recurrent expenditure of especially rural LGAs (Oates, 1972).

Second, local revenue collection can exacerbate political tension and undermine social accountability. On the one hand, even the devolution of narrow tax bases, such as property value, is likely to generate significant inequality in tax collection rates between urban and rural areas and hence supports differential service provision levels in the absence of transfers. On the other hand, local revenue collection makes LGAs prone to elite capture. In Sierra Leone, for example, anecdotal evidence suggests that the devolution of property tax collection power significantly increased pressure from (property owning) local elites to reduce tax collection efforts, therefore undermining local fiscal capacity (Jibao and Prichard, 2013).

Third, fiscal capacity is not only undermined by local elites but also through the incentives created by fiscal transfer mechanisms. In Ethiopia, for example, Woredas receive targets for tax collection but are responsible to transfer any excess tax collected back to the regional level. As this arrangement significantly reduces Woredas' benefits from tax collection, it generates limited incentives to create tax collection capacity at the local level (Adal et. al., 2005).

4.3. Designing Transfer Systems

Establishing a fiscal transfer system to finance LGA expenditure is a central part of any decentralisation reform. On the one hand, transfers are suitable mechanisms to redistribute income between rich (urban) and poor (rural) areas in order to equalize levels of public service provision (e.g. Bordignon, Manasse and Tabellini, 2001). Transfers can also be used to internalize inter-regional spillovers. For example, LGAs might be more likely to invest in infrastructure that also benefits other regions (for example building power plants that serve multiple regions) if inter-regional transfers assure that they are compensated for the resulting benefits. Finally, transfers can also act as an insurance against local economic shocks, for example allowing LGAs to raise government expenditure in response to high local unemployment (e.g. Lockwood, 1999).

Designing intergovernmental transfer systems is, however, significantly constrained by inter-regional heterogeneity and information asymmetries between the central and local government (Bordignon, Manasse and Tabellini, 2001). For example, there might be spatially diverging preferences for different public goods (Cremer et. al., 1996). Alternatively, localized access to technologies used for the production of public goods can lead to differences in cost structures (Cornes and Silva, 2000). When those differences aren't directly observable by the central government they can lead regions with lower costs for public good production to receive higher transfers than they require, leaving high cost regions short of funding. Similarly, central government transfers can also weaken LGAs' incentive structure*,* for example by reducing effort exerted on local revenue collection.

When designing transfer systems, policy makers therefore need to assure that they maintain local incentives for revenue collection and efficient public good production while also basing transfer allocations on indicators that are proportional to preferences for public goods and cost measures. One example used in the literature for such an indicator is the income or property tax rate chosen by the local government: Higher tax rates are costly but imply a higher valuation for tax revenue which is used to signal a region with higher demand for public goods or higher costs. Regions with higher tax rates should therefore be rewarded with higher transfers (Bordignon, Manasse and Tabellini, 2001).

In reality, best practice suggests using one of two possible options to design transfer systems. On the one hand, the amount of transfers can be based on a "normative" measure of the costs associated with public service delivery. Examples that have been used include local population size and estimates of the costs associated with public good production. This option is primarily used by developed countries where reliable accounting data is available. For example, most OECD countries use fixed distribution formulas that reflect the average or normative cost of the basic package of public services provided by LGAs. It is, however, unclear to what extent such measures can be obtained in a developing country context (Bergvall et. al., 2006).

On the other hand, transfer amounts can be based on measures of tax collection effort. Recent developing country experience suggests that tying transfer formulas to revenue generation can serve as a motivator for subnational governments to embark on wealth enhancing policies. The challenge is to identify measures of tax collection effort that are independent of local conditions to not further exacerbate inequality between rural and urban areas. Potential measures include effective tax rates and tax collection relative to an independent assessment of the tax base size (Poeschl and Weingast, 2013).

4.3.1. Transfer Systems in Focus Countries

Transfer systems in the focus countries typically take one of two possible shapes. On the one hand, they can be indicator-based, meaning that the size of central government transfers is determined by LGA-specific characteristics, such as the local development indices or poverty and literacy rates. A key challenge with this approach is that fund allocation is unrelated to costs. Similarly, indicator-based approaches are typically biased towards relatively large and poor LGAs. Taken together, an indicator-based approach typically leaves richer LGAs with high costs short of financing. In addition, this approach requires regularly updated information on development indicators collected at the local government level, which is costly in itself.

An alternative to the indicator-based approach used in the focus countries is a cost-based approach to transfer allocation, which determines transfer size as a function of LGA administration costs. While the cost based-approach is certain to recover LGA expenditure, experience from Sub-Saharan African countries shows that it can lead to blowing up of staff, or breaking down of LGA units to increase transfer allocation (Smoke, 2003 and 2008).

4.3.2. Practical Challenges with Transfer Systems

Experience from the focus countries shows that the disparity between rich (urban) and poor (rural) LGAs is a key challenge to effective transfer systems design. In South Africa, for example, LGAs' share of transfer income spans from 15% in urban areas to 80% in more rural LGAs. Urban municipalities are therefore able to achieve the same level of service delivery as rural regions while maintaining a higher independence from the central government, which creates significant spatial heterogeneity in local autonomy and the effectiveness of decentralisation reforms (Koelble & Siddle, 2012).

A second challenge that has arisen in focus countries relates to the timeliness and reliability of transfer payments. In Sierra Leone, for example, the central government demands detailed documentation and justifications of previous expenditure before approving additional payments. As the assessment of such reports is time consuming, this system causes substantial uncertainty, which has shown to particularly delay infrastructure investments (Edwards, Yilmaz and Boex, 2015).

Finally, the central government in South Africa regularly engages in large discretionary investments in areas allocated to local governments, such as road construction. As coordination between LGAs and the central government is insufficient, such investments regularly conflict with LGA budgeting, therefore not only reducing local government autonomy but also leading to inefficient resource allocation (Wittenberg, 2003).

4.4. Achieving Local Accountability after Fiscal Decentralization

Similar to administrative decentralisation, Yilmaz, Beris and Serrano-Berthet (2008) separate public and social accountability when considering the determinants of local accountability in the fiscal sphere. In their terminology, public accountability refers to the implementation of effective, transparent and rule based public financial management. Social accountability, on the other hand, refers to community-based monitoring of financial management, for example through legislators, the civil society or the general public.

While focus countries have actively attempted to improve public accountability, those efforts have been met with a number of challenges. On the one hand, implementing consistent budgeting procedures and public financial management structures requires human capacity at the local level. Experience from the focus countries shows that especially skills necessary for budget execution, such as planning and accounting skills, as well as financial management, are typically in short supply in local government authorities. In addition, reports on Ethiopia and Tanzania suggest that there is a lack of capacity to monitor local expenditure. As a result of such human capacity constraints, LGAs require assistance by experts from higher levels of governments, therefore undermining local autonomy and reducing the effectiveness of decentralisation reforms. On the other hand, evidence from Ethiopia suggests that elected representatives tend to have lower levels of literacy rates compared to full time civils servants. This significantly constraints their ability to oversee the planning, budgeting and service delivery process and therefore reduces public accountability (Yilmaz and Venugopal, 2009).

Social accountability faces a similar challenge, as it is unclear whether legislators, the civil society and the general public have access to the necessary information to scrutinize public financial management. Evidence from Tanzania suggests that citizens are typically uninformed about the decision power available to LGAs, let alone their performance (World Bank, 2010). Similarly, recent survey evidence from Ethiopia shows that 91% of respondents are unaware of the extent of financial autonomy allocated to their local government. A similar fraction was unaware of how local expenditure was allocated (FTAPS, 2009). Taken together, this evidence suggests that local social accountability is significantly constrained by information asymmetries, hinting to the importance of LGA transparency during and after the decentralisation process.

5. Conclusion

Decentralisation reforms are typically used as a policy instrument to improve the targeting of public services and the accountability of public service providers, thereby enhancing the effectiveness of public sector operations as a whole. This article has argued that there exists substantial heterogeneity in the extent to which decentralisation reforms allocate de-facto autonomy to local governments, driven primarily by the design of the reform process. Evidence from South Africa, Tanzania, Ethiopia and Sierra Leone suggests that decentralisation reforms maintain strong elements of central regulation and therefore remain incomplete. Taken together, experience from the focus countries suggests that assuring a commitment to delegating power at the central level and the availability of capacity to deliver services and demand accountability at the local level is key for successful decentralisation.

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7. Annex: Focus Country Comparison Based on the 10 Areas of the Zambian Decentralisation Implementation Plan

Country/ Category	**Tanzania**	**South Africa**	**Sierra Leone**	**Ethiopia**
Legal and Regulatory Reforms	<u>Local Government Reforms I (1982):</u> Reinstitution of LGAs with mainly administrative responsibilities. <u>Local Government Reforms II (2009):</u> Increasing fiscal decentralization.	<u>Organized Local Government Act (No.52, 1997):</u> Reintroduction of local authorities as part of post-Apartheid constitutional reform.	<u>Local Government Act (2004):</u> Introduction of Local Councils and devolution of administrative responsibilities. <u>National Decentralization Policy (2010):</u> Revision of legislature and standards.	<u>District Level Decentralization Program:</u> Phase I (1991) devolution of administrative responsibility from national to regional level; Phase II (2002) further devolution from regional to district level.
Sector Devolution	**LGA Responsibility:** Primary education, primary and preventive health, water supply, sewerage and sanitation in rural areas, solid waste, agricultural extension	**LGA Responsibility:** Electricity, water supply, sewerage and sanitation, firefighting, municipal health services, land use, municipal infrastructure, food markets, recreational areas, local tourism	**LGA Responsibility:** Primary and secondary education & health care, rural water supply, sanitation, waste management, agriculture, youth services, social assistance, and local firefighting	**LGA Responsibility:** School management, primary and post-natal health care, hospital/clinic administration, primary schools, HIV/AIDS and malaria prevention, water supply
Fiscal Decentralisation	**Share of expenditure financed through own revenue:** 6.9% **Fraction of conditional grants in total financing:** 40% **Fraction of total transfers earmarked:** 80%	**Share of expenditure financed through own revenue:** 52.5% (rural), 86% (urban) **Fraction of conditional grants in total financing:** 30% **Fraction of total transfers earmarked:** 100%	**Share of expenditure financed through own revenue:** 25% **Fraction of conditional grants in total financing:** 0% **Fraction of total transfers earmarked:** 100%	**Share of expenditure financed through own revenue:** 20-30 % **Fraction of conditional grants in total financing:** 0% **Fraction of total transfers earmarked:** 91%
Sensitisation and Civic Education	-Government cooperates with Radio Free Africa to inform people about decentralization -DDTP lead by UNDP for “Deepening Democracy”	-The Local Government Negotiating Forum ran Workshops and hosted forums to educate and garner support for the 1997 Decentralization	Two progammess led by civil defense forces: Disarmament, Reintegration and Reconciliation (political education and economic integration) and Civic Education (civing and human rights education)	-Ruling party offers courses for civic education -“Promoting Basic Services Program” implemented by the CG to educate the public to participate in local governance

Auditing and Monitoring	-Monthly Internal performance audits -External audits as support and for donor-funded or development projects	- Annual Intergovernmental Fiscal Reviews (IGFR) -Non-Central Monitoring by Mayoral Executive Committee	-Introduction of Audit Service Sierra Leone (ASSL) in 1998 - Specialised agency to conduct regular LGA audits	-Internal Audit and Investigations Group (IAIG), run by UNOPS
Capacity Building	-University Courses for LGA officials -Donor and private company support - Central government grants for capacity building conditional on basic financial management and transparency requirements	-Institutional capacity building grant (7.5% of unconditional grants) for poor municipalities -Human Capital Programme by the ADB to improve financial management and service delivery	-World Bank Institutional Reform and Capacity Building (IRCBP) Project -Multi-Donor Budget Support (MDBS) to assess implementation of donor-funded development projects	-National Capacity Building Program (NCBP) targets a broad range of 14 sectors -Central-Government-run training programs for elected district-level officials
Local Accountability and Governance	-Limited formal local accountability measures -Lack of Accountability due to limited ability of community to participate, primarily as a result of insufficient information/transparency and low education	-Approximately a third of municipalities have formal community participation mechanisms, primarily through community forums	-Lack of accountability by centrally-deployed staff -Local conflict between LGAs and chiefdoms limits accountability	-Regional targets overrule community needs - Strong central party influence -Decision-making compromised byintergovernmental distribution system
Local Development Planning and Budgeting	-Limited local development-planning efforts due to central government prescriptions and partial intervention	-Local Development Planning constrained by discretionary central spending -Establishment of communications channel through which local communities can indicate their needs to central government (through nonpartisan Financial and Fiscal Commission (FFC)) -**Innovation:** New budgeting framework that allows multi-year budgeting for LGAs.	-Councils have dedicated positions for internal auditors and m&e officers -Sufficient staff to carry out planning, budgeting, and accounting available at the local level -Uncertainty over division of responsibilities limits development planning	-Limited room for discretionary capital budgeting, as 91% is earmarked for administrative and operational expenditures

Financial Management and Accounting	-Low capacity, which requires (external or central government) technical advisors to be hired as the backbone of day-to-day operations -Audit Reports indicate recent improvements in financial management	-Weak Financial Management with 27 Billion Rand over-expenditure on items unrelated to service delivery -Missing formal taxation by-laws in most municipalities	-Central government requirement to receive LGA expenditure report before issuing new funds delays public service delivery -High Intransparency in Financial Management due to delays in publication of accounting reports	-Limited information on accounting procedures and the reliability of provided information.
Infrastructure Development	-Local Government Transport Programme (LGTP) and Village Travel and Transport Programme (VTTP): Both require LGAs to independently plan and tender their transport development	-Municipal Infrastructure Grant (MIG) for Infrastructure development at the municipal level	-Devolution of infrastructure (especially road) planning delayed due to political confrontations -No identifiable local initiatives for Infrastructure development yet	-Telephone infrastructure decisions are made by local entities

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