



External Support for Decentralization Reforms and  
Local Governance Systems in the Asia-Pacific:  
Better Performance, Higher Impact?

# DLG Reforms in South Asia – An Overview

**T. R. Raghunandan**

Advisor, LoGIn (Local Government Initiative), Swiss Cooperation Office, New Delhi

25-27 August 2015, Manila, Philippines



DECENTRALISATION &  
LOCAL GOVERNANCE



External Support for Decentralization Reforms and  
Local Governance Systems in the Asia-Pacific:  
Better Performance, Higher Impact?  
25-27 August 2015, Manila, Philippines

---

- Key features of South Asian decentralized governance
- The fiscal decentralisation framework in South Asia
- Issues and challenges
- The way forward

## Country Contexts

### Political organization:

- Two 'holding together' federations (India, Pakistan), one emerging federation (Nepal), Unitary (Bangladesh, Bhutan, Afghanistan, Sri Lanka, Maldives).
- Multilayered sub-national governance; Provinces plus 2 to 3 LG layers – (India, Pakistan, Sri Lanka, Afghanistan), 2 to 3 layered LGs (Bangladesh, Nepal)

### Political context:

- 3 recently emerged from conflict (Afghanistan, Sri Lanka, Nepal), democracy in various stages of evolution in all countries,
- High urbanization, migration and associated tensions,
- Hotbed of innovation and economic growth, co-existing with significant and lingering poverty and gaps in basic service delivery
- Serious environmental damage and climate change concerns

## Constitutional and legal approach to decentralisation to local governments:

- Local governments given constitutional status in most countries
- In Federations, LGs a State subject (India and Pakistan), leading to local variations in functional and expenditure assignments within an overarching constitutional framework
- Across all countries, more of deconcentration in reality, in spite of political rhetoric of devolution.
- Vertically integrated bureaucracies with colonial histories, plus highly competitive politics has inhibited devolution to LGs (India, Pakistan, Bangladesh)
- Generally speaking, civic functions tend to be more precisely entrusted to LGs (water supply, sanitation, solid waste management, electricity distribution, street-lighting, local roads, community assets), not the big public sector departments (Health, Education, Agriculture, Economic Development)

## Who arbiters fiscal transfer decisions

- **Constitutionally mandated**
  - Temporary inter-governmental forum: National Finance Commission with provincial representation and inclusive membership – Pakistan
  - Temporary Finance Commissions with appointed members at National and State levels with mandate to determine National, Provincial and Local shares – India
  - Permanent Finance Commission – Sri Lanka, Nepal (envisaged)
- **Government and Finance Ministry driven:**
  - Bangladesh, Afghanistan

However, impartially arbitrated revenue sharing arrangements coexist with ministry driven specific purpose transfers

A few sample countries	Revenues (%)			Expenditures (%)		
	National	Provincial	Local	National	Provincial	Local
Bangladesh	97.56		2.44	97.45		2.55
India	66.19	33.31	2.50	47.70	45.19	7.11
Nepal	98.18		1.82	88.57		11.43

- High dependency of LGs on IGFTs
- Low own revenue realisation
- Large number and significant volumes of specific purpose and conditionality based transfers.
- Patronage based ‘dipping into the pork barrel’ grants given to legislators, muddying the fiscal transfer waters
- Off budget transfers through parastatals, often bypassing provinces and governmental accounting, makes it difficult to obtain accurate data on LG finances

## Interesting innovations and practices

### Nepal:

- Stabilisation of performance based grant system through institution of LBFC, building on relatively strong LG system

### Pakistan:

- Inclusive inter-governmental arrangement for National Finance Commission, enables consensual decisions on IGFTs
- 18<sup>th</sup> Amendment mandates LGs and makes this a provincial responsibility, giving opportunity to provinces to accelerate reforms.

### India:

- Some States have championed impressive decentralisation (though stopping short of devolution)
- National Finance Commission setting new trends in revenue shares and grants to Provinces and LGs

### Bangladesh:

- New performance based grant system for LGs at Upa-zila (Intermediate) and Village levels
- Horizontal learning programme for sharing of good practices between LGs

## Challenges:

### Nepal:

- As Nepal moves into Federal system, what are the implications on the LG system?
- LG system insulated from political competition so far; this has enabled certain practices (formula based and performance based grants, MCPMs, etc.) to stabilize. Will this survive and grow into accepted system?

### Pakistan:

- 18<sup>th</sup> amendment has constitutionally mandated LGs but made it exclusively a state subject. So far provinces have not found political advantage in strengthening them.

### India:

- Will real devolution continue to elude seekers? Good moves on increasing devolution of Union revenues to States; will it foster similar moves to devolve more to LGs, or will the latter continue to function as deconcentrated agents?
- Is strengthening urban decentralisation on anybody's agenda?

### Sri Lanka:

- How to address skewedness in revenues and expenditures? Will provinces only serve to disempower local governments?

### Afghanistan:

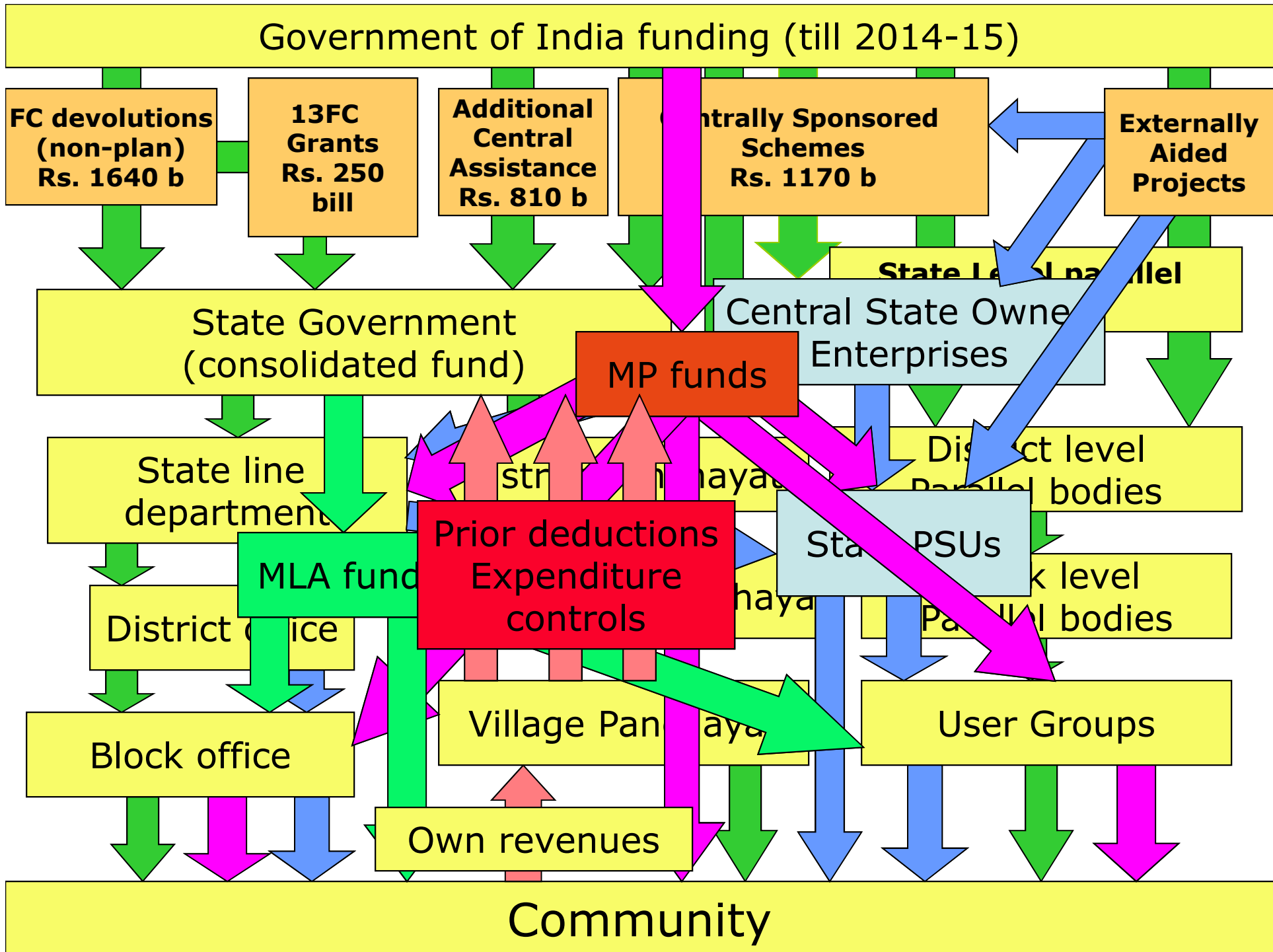
- Need to address problems of coordination between line ministries and IDLG on dealings with the Provincial Councils
- Hazy and overlapping functions of Provincial and District Councils



## Universal issues

- Patronage based grants (Constituency development funds) a rampaging bad practice in the region (India, Pakistan, Nepal and Bangladesh have enlarged the volumes of these funds recently).
- Equalisation – when stream over stream of devolved funds and grants (performance based, general purpose, specific purpose, arbitrarily allocated) each with its separate criteria and pre-conditions, flows to the LGs, who gets more? Those who deserve more or those with greater absorptive capacity?
- How does one create the databases and analytical skills required to monitor the pulse of an IGFT system?
- How does one treat urban and rural systems? Not addressing this issue is resulting in large, un-regulated urban sprawls across South Asia.

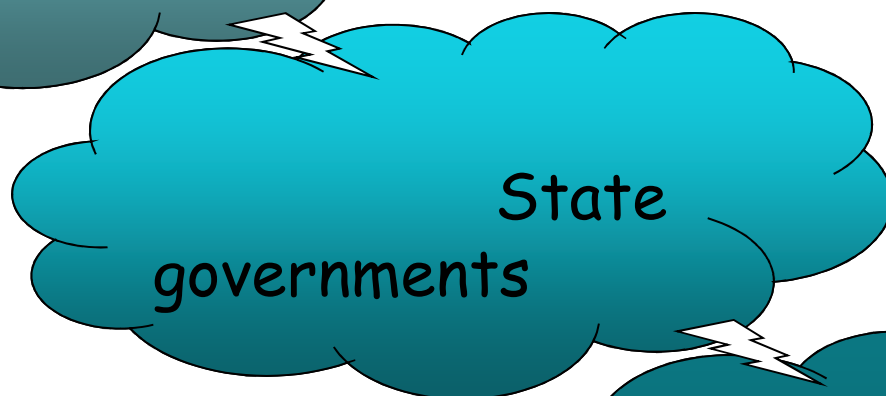
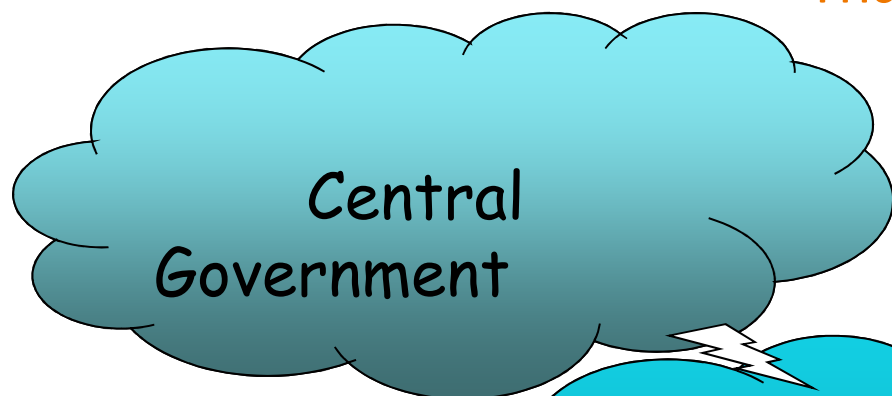
And the BIGGEST question of them all; how do you follow the money?



## The way forward

- Constant work on functional assignments and all its related sub-activities – aim for reasonable clarity rather than complicated precision. As more services get networked, strategic centralization might be necessary
- Strengthen Institutional means for IGFT design, monitoring and tweaking. Focus on building state capacities for managing an IG system – a neglected area.
- Real time, online, data flows, now made possible due to widespread connectivity. Create capacities to use this for evidence based policy making
- Nurturing of champions who perform well against all odds, networking them, spread home-grown learning, creating learning networks of local government elected representatives, officials, practitioners, focus on learning rather than on instruction.

Thank you



[ttraghu2014@gmail.com](mailto:ttraghu2014@gmail.com)

+919845749988

Blog:

<http://www.accountabilityindia.in/raghubytes>

