



**United  
Nations**

Department of  
Economic and  
Social Affairs



**UNPOG**

DEPARTMENT OF ECONOMIC AND SOCIAL AFFAIRS  
Division for Public Institutions and Digital Government  
United Nations Project Office on Governance

# Africa Workshop on Subsidiarity and Decentralization for Sustainable Development

## Fiscal Federalism and Decentralization

**March 12, 2024**

**Paul Smoke  
New York University  
Robert F. Wagner Graduate School of Public Service**

# I. The Role of Subnational Governments in Development

- **Public sector decentralization** has been a prominent global phenomenon, although it varies in form and importance
- **Low- and middle-income countries adopt or reform decentralization** with varied objectives--improved public management/governance/accountability; stronger economic growth; more efficient/inclusive service delivery; and promotion of peace and stability, among others
- The attainment of these goals is based on **expected greater SNG knowledge of local conditions/needs and closer connection to local people** compared to central governments
- Part of the **rationale for decentralization/subsidiarity** is a public finance theory known as **fiscal federalism**

# II. Fiscal Federalism

## Public Finance: Role of Government

- Stabilization (Central)
- Distribution (Central)
- Allocation Functions (Lowest Possible Subnational Level)

## Fiscal Federalism: Role of Subnational Governments

Economic Principles

Political/Institutional Context

1. Local Functions

2. Local Finances

Defining and Costing Needs

3. Public-Private Partnerships

Local Own-Source Revenues

Transfers: Fiscal Gap/Other National Goals

Loans: Market and Subsidized

Private Sector Financing

1. Functions assigned to subnational governments based on fiscal federalism principles adjusted for context

2. Finances (appropriate mix) assigned to ensure subnational governments can provide assigned functions

3. Subnational governments can as needed engage private sector partners

# Subnational Finance and Other System Elements Must Work Together

- For subnational governments to meet their responsibilities, a credible **intergovernmental fiscal system** must be in place or developed:
  - Expenditure Assignment/Management
  - Local Revenue Generation/Autonomy
  - Intergovernmental Transfers (unconditional/conditional)
  - Local Government Investment Finance/Borrowing (including donor funds in developing countries)
- Beyond these fiscal elements, **effective fiscal decentralization depends on appropriate administrative and political decentralization**

# III. Fiscal Decentralization

## Situation and Trends

- Middle- and low-income countries tend to have less fiscal decentralization than higher income countries, but there is great variation

<u>Country Income Level</u>	<b>SNG Expenditure Share of GDP</b>	<b>SNG Share of Total Public Expenditure</b>	<b>SNG Share of Total Public Investment</b>	<b>SNG Share of Total Tax Revenue</b>	<b>Intergovernmental Transfers/Total SNG Revenue</b>
<b>High</b>	14.0	28.0	44.1	19.7	51.4
<b>Upper-Middle</b>	8.0	23.0	41.5	13.9	58.0
<b>Lower-Middle</b>	4.5	19.0	34.8	13.0	44.4
<b>Low</b>	2.0	12.0	18.0	4.4	53.0

## IV. Implementation

- There is no “best” assignment of subnational government functions and revenues: fiscal federalism principles must be applied to be compatible with **economic, institutional, political and cultural context** across/within countries
- **Common implementation challenges** include
  - **Economic realities** (limited/narrow economic bases, pervasive poverty, etc.)
  - **Lack of good information** (to design and manage systems) **and empirical evidence** (regarding what works)
  - **Capacity constraints** (technical, managerial, governance)
  - **Political realities** (at both the national and subnational level and in relations between them)

# Implementation Strategy

- **Fiscal decentralization reforms are demanding and can rarely all be done simultaneously**
- **There is a need for a strategic implementation strategy, which may, for example, include:**
  - Determining appropriate starting points and a path for the sequencing of reform(s)
  - Considering the use of piloting and experimentation before mainstreaming reform design
  - Creating appropriate incentives to adopt reforms
  - Appropriately enhancing capacity development
  - Adopting an ongoing learning and adaptation approach to intergovernmental fiscal reform
  - Working effectively with international development partners interested in providing support

**Thanks for your attention!**

**Feel free to contact me for further  
information**

**[https://wagner.nyu.edu/community/faculty/  
paul-smoke](https://wagner.nyu.edu/community/faculty/paul-smoke)**