

Fiscal Decentralisation and Public Financial Management Reforms In Central Asia: Challenges and Opportunities

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Presentation: Structure

- ▶ **Section 1: Aligning Fiscal Decentralisation and Public Financial Management [PFM]**
- ▶ **Section 2: PFM, Governance and Fiscal Decentralisation in Central Asia**
- ▶ **Section 3: Challenges and Opportunities: Measuring the Impact of PFM and Fiscal Decentralisation on Service Delivery**
- ▶ **Concluding Observations: An Agenda for the Future?**

Section 1

Aligning Fiscal Decentralisation and Public Financial Management [PFM]

Definition: Decentralisation

Transfer of authority, or dispersal of power, in public planning, management and decision making from the national level to the sub-national levels or, more generally, from higher to lower levels of Government

Rondinelli [1983]

Decentralisation: Dimensions and Modes

Dimensions	Modes
<p>Administrative Decentralisation – sharing responsibilities and authority for policies and decisions</p>	<p>Devolution: Deepest form of decentralisation where responsibility, authority and accountability is devolved to lower level administration</p>
<p>Fiscal Decentralisation – assignment of expenditures, revenues [transfers and revenues] among different levels of government</p>	<p>Delegation: Service or function transferred by government to an agent [state, for-profit and non-profit], but accountability to government</p>
<p>Political Decentralisation – integration of voice of citizens in policy decisions and accountability mechanisms</p>	<p>Deconcentration: Shallowest form of decentralisation involving transfer of responsibilities to an administrative unit of central government at field or local level</p>

Drivers for Fiscal Decentralisation

- ▶ Public Finance Reform [PFM] – driven by the MOF
- ▶ Governance Reform – driven by the Ministry of Local Government or equivalent
- ▶ Public Administration Reform – often linked to PFM or Governance reforms
- ▶ Local Service Delivery Reform – often driven by line ministries

Benefits and Risks in Modes of Decentralisation

Type of Decentralisation	Merits	Risks
Deconcentration	Reduced need for central administrative bodies and local innovations can proceed	Unacceptable variations in practice, and increased fragmentation
Devolution	More local decision-making and opportunities for people to influence decisions, less centralised power	Lack of political control and oversight at the centre
Delegation	Faster implementation of decisions	Less influence of professional values, quality and efficiency can deteriorate if decentralised units are too fragmented

Basic Questions for the PFM System

Basic Questions	Explanatory Tasks
How to maintain fiscal discipline	Make sure spending is affordable – i.e, keep spending within government's ability to raise revenue and keep debt within levels that can be serviced
How to set and promote strategic priorities	Use the budget to achieve key goals – i.e., allocate resources to those areas that make greatest contribution to government objectives
How to deliver public value	Maximise net benefits of spending for people – i.e, aim for the most efficient ways of spending and selecting appropriate systems for delivery of strategic priorities

PFM Interactions – Inter-governmental finance and decentralisation

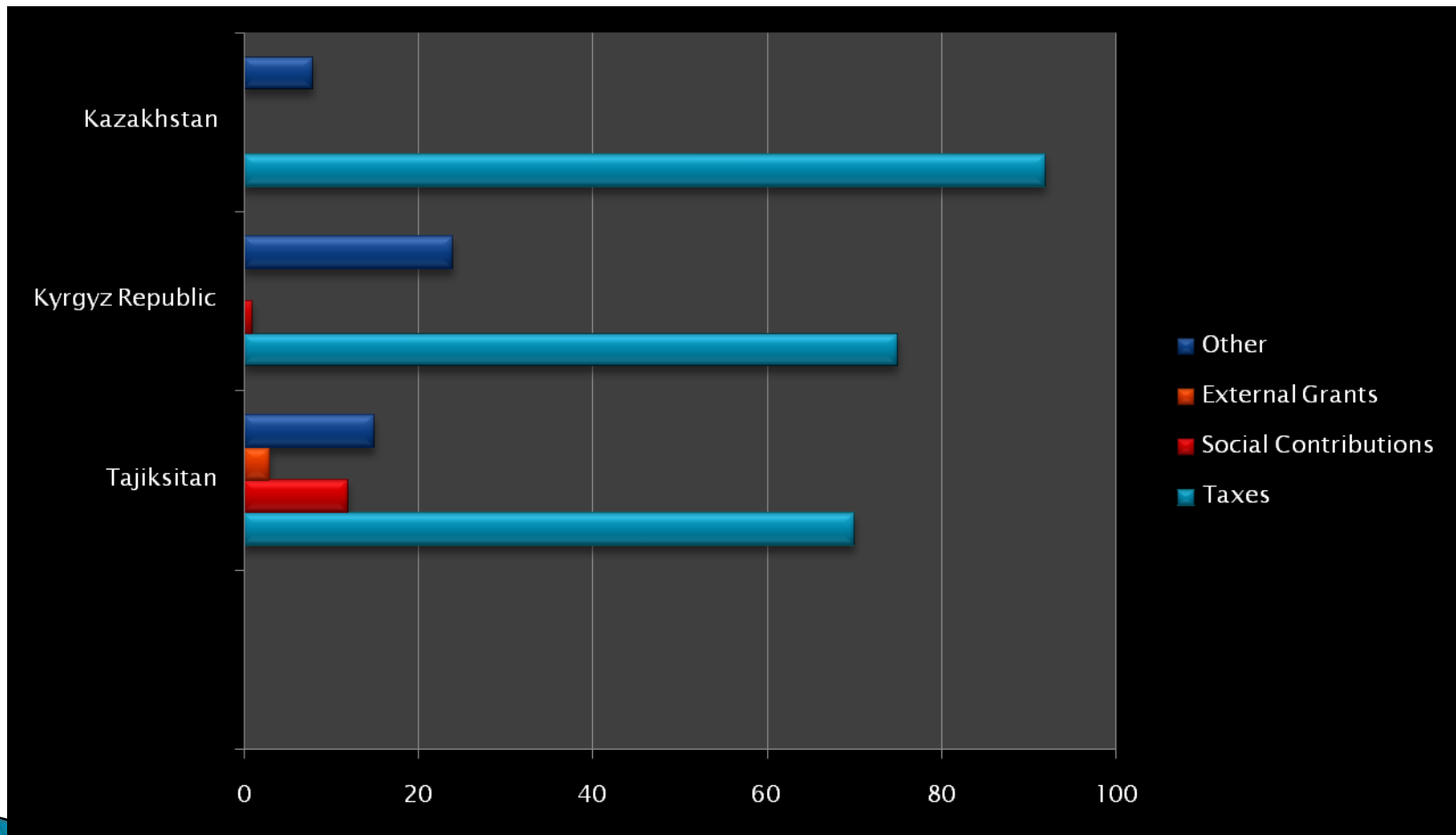
▶ **Maintain Fiscal Discipline**



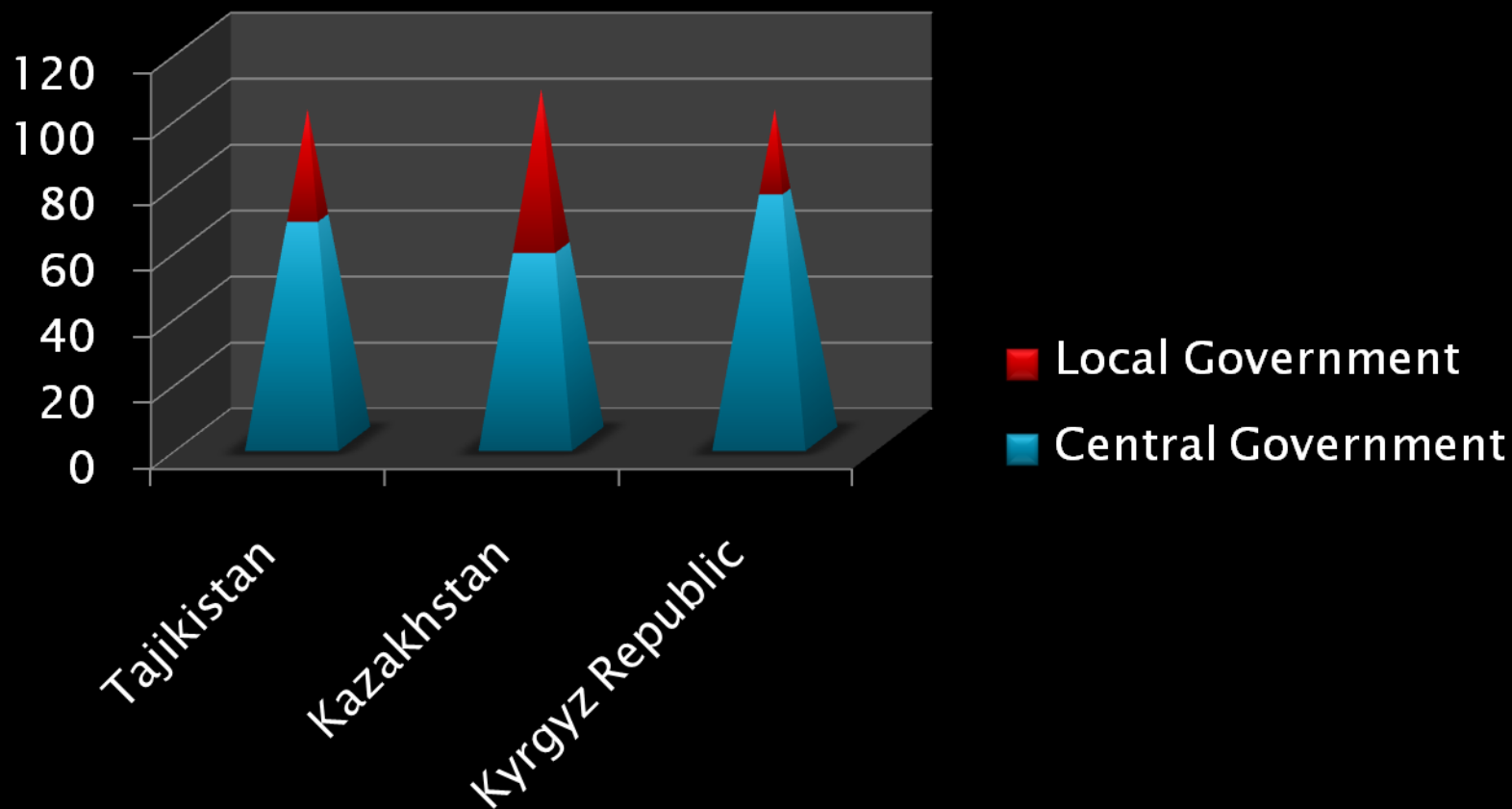
Section 2

PFM, Governance and Fiscal Decentralisation in Central Asia

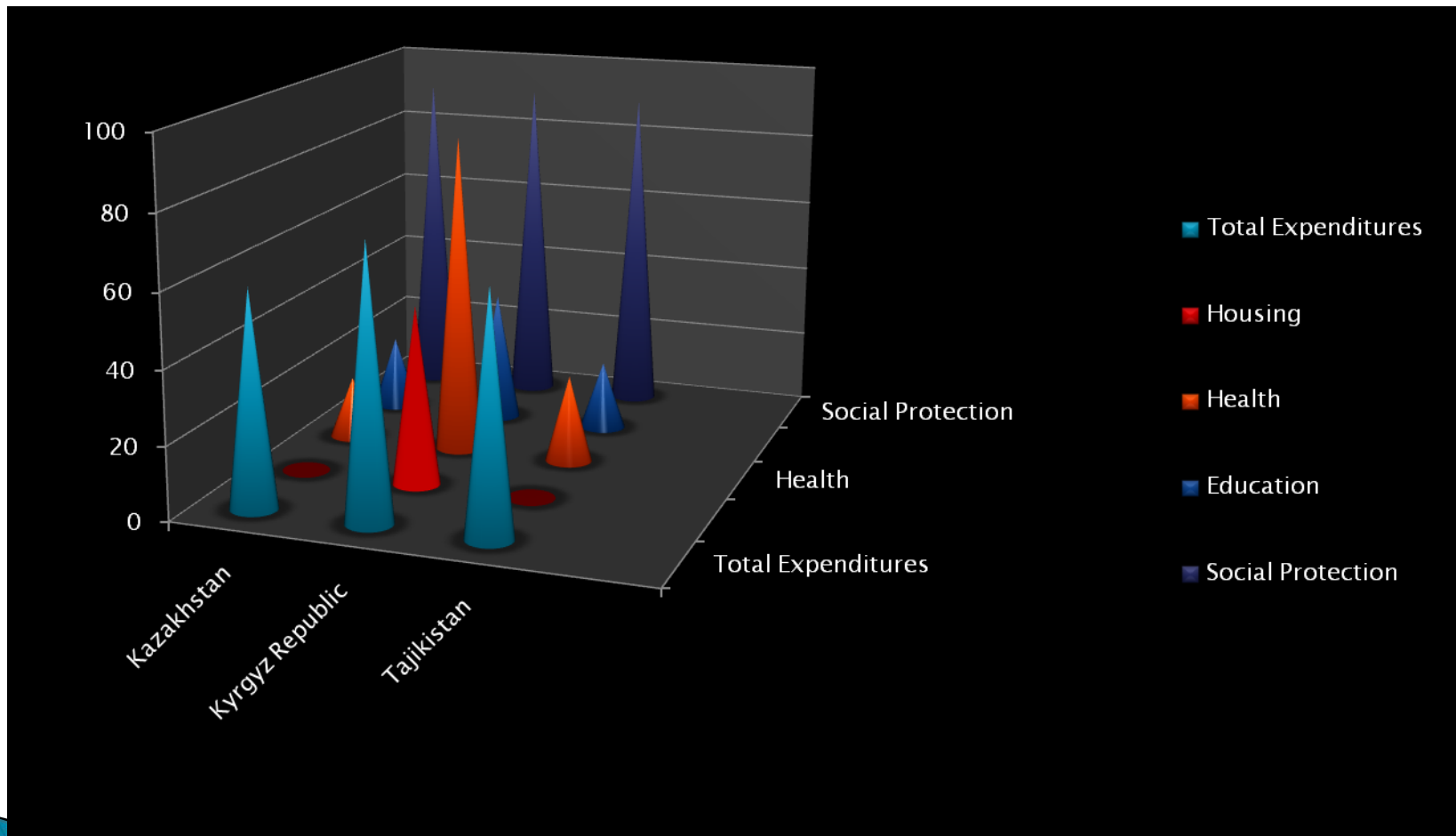
Structure of Central Government Revenues [%]



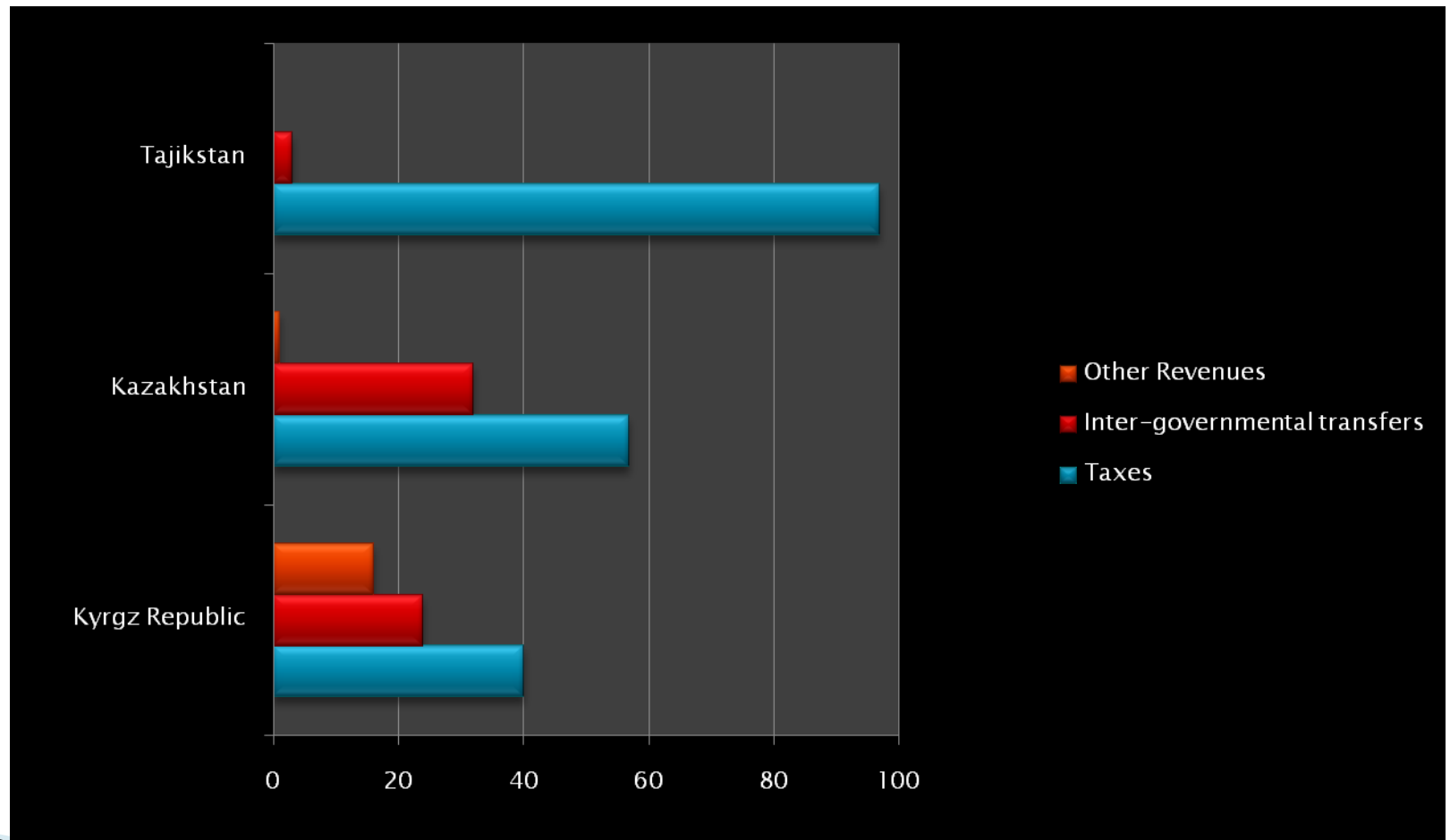
Structure of General Government Expenditures in Tajikistan, Kazakhstan and Kyrgyz Republic



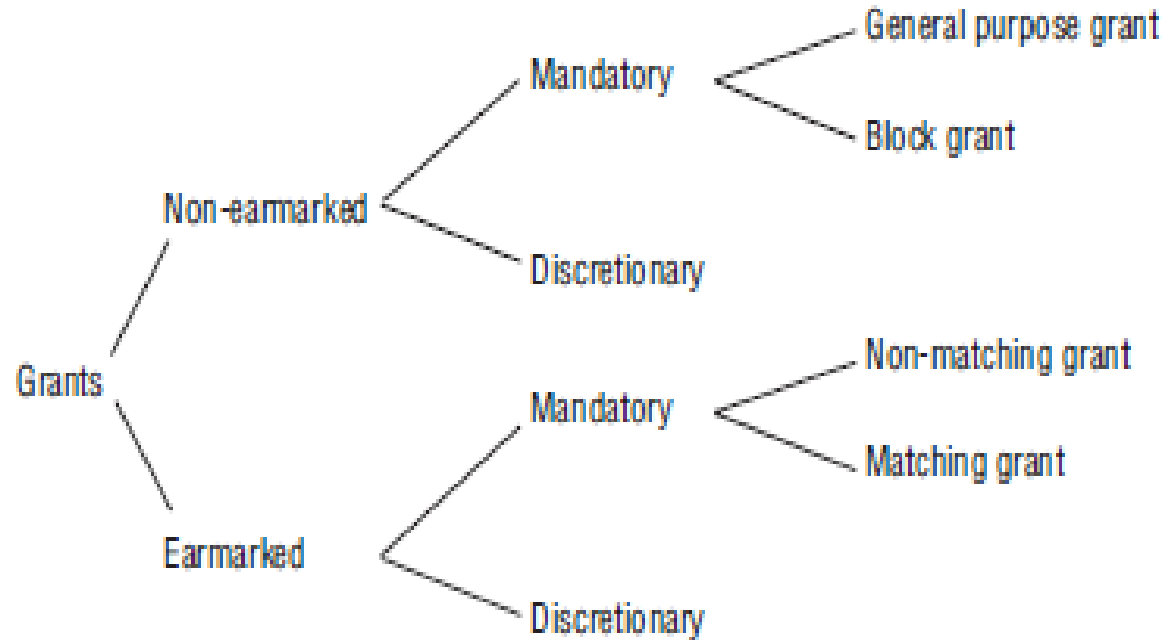
Shares of Central Government in General Government Expenditures: Education, Health and Social Protection and Housing



Structure of Local Budgets Revenues in Tajikistan, Kazakhstan and Kyrgyz Republic



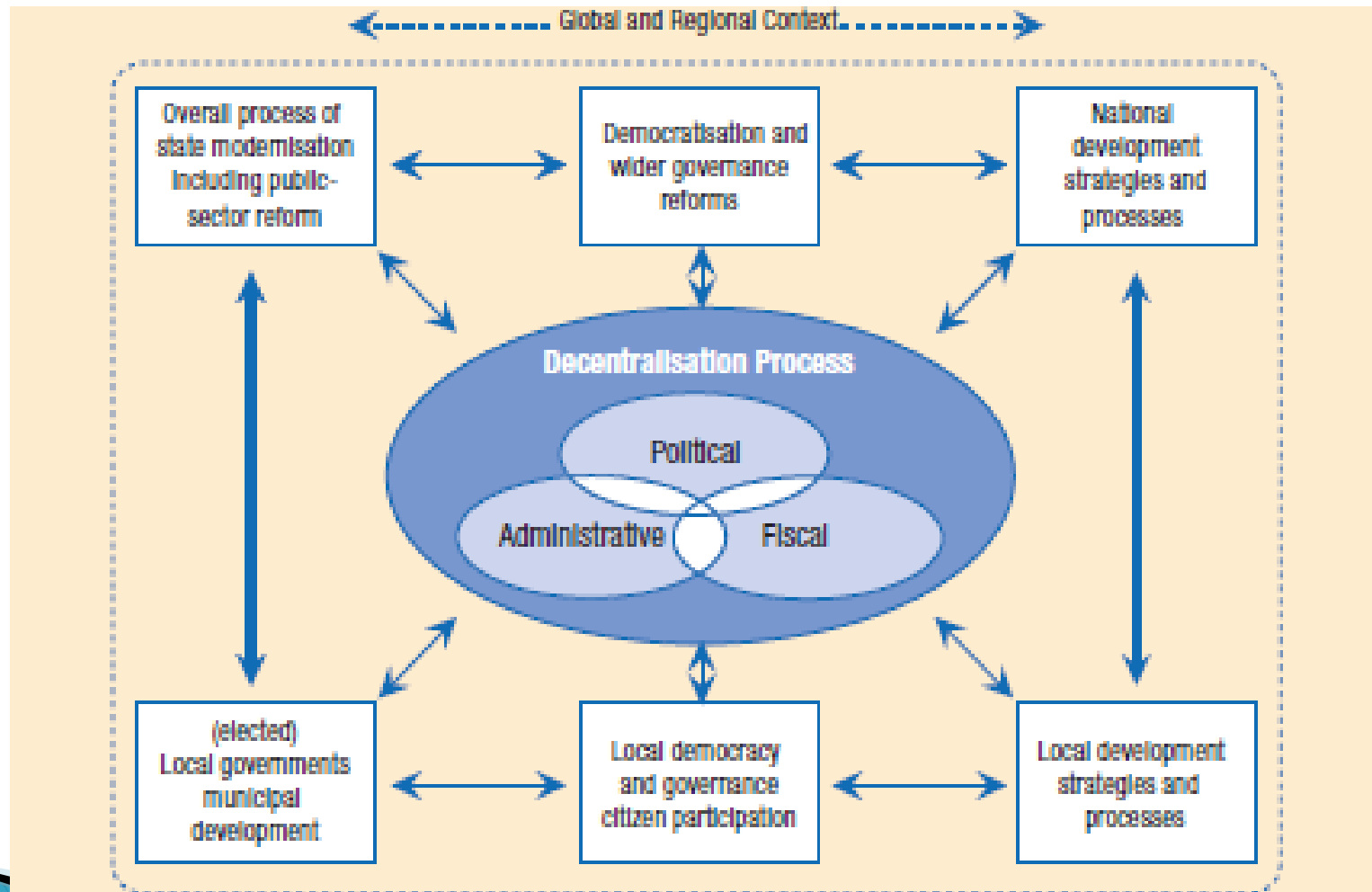
Types of Intergovernmental Transfers and Grants



Section 3

Challenges and Opportunities: Measuring the Impact of PFM and Fiscal Decentralisation Reforms on Service Delivery

An “Open Systems” Approach to PFM and Fiscal Decentralisation



CEE-CIS PEFA Assessments

Country	PEFA Review Status	Country	PEFA Review Status
Albania	2006	FYR Macedonia	2007
Armenia	2008	Moldova	2006,2009
Azerbaijan	2008	M'negro	2009
Belarus	Started	Russia	2007
BiH	2009	Serbia	2007
Croatia	NO	Tajikistan	2007
Georgia	2008	Turk'stan	NO
Kazakhstan	No	Ukraine	2007, 2009
Kyrgyz Republic	2006, 2009	Uzbekistan	NO

Challenges: The integration of PFM alongside governance and sector policy reforms into fiscal decentralisation

- ▶ **The need for sound economics and sound public administration that enable budgetary resources to flow in a manner that links resource allocations as closely as possible with policy objectives and the desired policy outcomes;**
- ▶ **The need for greater alignment between fiscal decentralisation and the simultaneous decentralisation of [some] political power, political accountability and administrative control at the sub-national level;**
- ▶ **The need to recognise that rather than focusing on fiscal decentralisation as an end-point in itself, reforms should be seen as a gradual and iterative process that involves explicit recognition that fiscal decentralisation is both a technical and political process;**
- ▶ **The need to integrate fiscal decentralisation and local governance into PEFA assessments – particularly with regard to social sector policies – with a view to improving sub-national budget transparency and introducing results based budgeting that empowers local communities;**
- ▶ **Developing realistic expectations about the benefits and risks of fiscal decentralisation in transition country contexts, and recognise the distinctive attributes of the dimensions and modes of decentralisation that are suited to particular sectors and circumstances.**

Opportunities: An Agenda for the Future?

- ▶ **(a) How to Widen and deepen the understanding of fiscal decentralisation through evidenced-based analysis of each country and within regions of each country;**
- ▶ **(b) How to appreciate the systemic nature of fiscal decentralisation and not underestimate the merits of a “joined-up reform” approach; and**
- ▶ **(c) How to shift away from discrete technical assistance projects and widen the scope to take account of institutional insights, the agility of policy, and the right technical expertise to analyse and implement the appropriate combination and sequence of interventions.**