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# Institutional Arrangements for Management of Fiscal Decentralisation

Reform discussion note



# Introduction

There are a number of key institutions which must perform roles regarding the management of fiscal decentralisation including: the Ministry of Local Government (MoLG), National Local Government Finance Committee (NLGFC), Ministry of Finance (MoF), Sector Ministries, Auditor General, and Parliament. These institutions must coordinate and discuss cross-sectoral issues related to fiscal decentralisation. Similarly, at the LGA level, there must be political and administrative structures staffed with people that possess the relevant skills and competencies for the management of fiscal decentralisation including an effective regulatory framework. In addition, there is need for vertical coordination between central and local governments regarding issues of fiscal decentralisation. This note makes proposals on how to strengthen the processes and structures for management of fiscal decentralisation.

## ■ **Proposals to Strengthen the Processes for Management of Fiscal Decentralisation**

The key processes that need to be strengthened include: Improving the policy basis for the allocation and distribution of transfers:

- a. Improved consideration of the allocation and distribution of transfers in the national budget process;
- b. Local Government Public Finance Management including: (i) budget preparation and approval by LGAs; and (ii) budget execution by LGAs;
- c. Supporting and oversight of LGAs by the centre.

### **Improving the policy basis for the allocation and distribution of transfers**

- The allocations of transfers should be based on a sound policy basis. This work needs to be undertaken in advance of the budget process as it will likely not be feasible within the compressed timelines of that process.
- Ministries, Departments and Agencies (MDAs) should elaborate policy commitments/priorities to be implemented by the LGAs to be used as a basis for allocation and alignment of resources with the priorities;
- NLGFC should issue guidance and/or principles that MDAs should follow for the development of the allocation formulae (for details, refer to the IGFT Reform Discussion Note);
- NLGFC should collect the required data/planning statistics from the respective authentic sources;
- The MDAs should propose a multi-sectoral committee consisting of MoF, NLGFC and the sectors to discuss the allocation formulae for the respective grants. The formulae should be approved by Parliament as part of the budget approval process which necessitates the budget to have an annex describing how the LGA transfers were allocated.

### **Improved consideration of the allocation and distribution of transfers in the national budget process**

Current MDA budget submissions only make justification for the funds to be spent by the national agency, and do not include the transfers in that sector. LGA transfers should be included in budget submissions, and NLGFC should join budget hearings where submissions containing transfers are scrutinised. Together this would ensure that consideration was given as to whether transfers should be changed in volume, and that expenditure on transfers was scrutinised in the same way as all other expenditure.

This would involve:

- The Ministry of Finance providing indicative ceilings for transfers to MDAs together with their other indicative ceilings.
- The Ministry of Finance issuing the budget preparation guidelines including guidance on budgeting for transfers, and including a transfers template as an output (alongside the existing templates for PE, ORT and development expenditure). NLGFC may consider developing an online allocation system to make the allocation process more objective and transparent – this would minimise errors in excel sheets and ensure that the agreed formulas were utilised.
- MDA submissions should also include proposals on transfers where an MDA has policy responsibility and this should be covered in budget hearings. General purpose transfers (GRF, DDF, IDF, CDF) should be included in the NLGFC submission.
- NLGFC being copied into budget submissions containing transfers, and attending budget hearing for MDAs making transfers so that MoF, NLGFC and sectors can negotiate any proposed increases. Including NLGFC in these budget hearings should both allow for sectors to use their expertise to shape transfers (e.g. the Ministry of Health making proposals for health transfers), and respect the

Constitutional mandate of the NLGFC to “make recommendations relating to the distribution of funds allocated to local government authorities”

- The Budget Statement should include annexes setting out how each transfer is allocated (both the allocations to each LGA, and the formula by which the allocation is made). This can then provide a mechanism for providing a way for the National Assembly to annually approve the formula for transfers, as required by Section 44(4) of the Local Government Act, 1998, which stipulates that “the distribution of Government grants to the Assembly shall be done by the Government upon the recommendations of the Local Government Finance Committee in accordance with a formula approved by the National Assembly”

## Local Government Public Finance Management

### Budget preparation and approval by LGAs

- Based on the national-level processes outlined above, NLGFC should issue the IPFs for transfers to LGAs, and MDAs should draft and issue draft transfer budget and implementation guidelines;
- NLGFC should organise and coordinate consultation/negotiation meetings between MDAs and LGAs to get LGA inputs into the coming FYs grant, budget and implementation guidelines (budget priorities, processes as well as grant conditions)
- LGAs should consult with communities on priorities to be incorporated in the Annual Investment Plans/ Work Plans
- LGA should consult, discuss and prepare draft budget estimates and annual work plans
- The MDAs should review the draft budget estimates and annual work plans to assess compliance with grant, budget and implementation guidelines and provide feedback to LGAs

- LGAs should continue to discuss, finalise and approval of the budget estimates and annual work plan by the respective Councils.
- The NLGFC should consolidate and submit the LGA Budgets to Parliament incorporating: grant allocations in the budget, grant allocation formulae for noting and approval.

### Budget Execution by LGAs

Proposals for making timely release of funds to LGAs include:

- Uploading final budgets into IFMIS;
- Issuing quarterly expenditure limits to LGAs
- LGAs should prepare and submit quarterly budget performance reports (financial and physical) to NLGFC
- LGAs should continue to prepare final accounts.

### Supporting and Oversight of LGAs

It is essential to deepen some of the existing processes for oversight and support to LGAs to ensure proper management of resources transferred to LGAs. In particular, there is need:

- To strengthen LGA Councils and Finance Committees to examine financial and audit reports and to take corrective action;
- For the NLGFC to continue examining and supervising accounts of LGAs;
- For the National Audit Office to continue auditing the accounts of councils
- For the MoLG to continue coordinating the annual LAPA exercise as well as performance improvement planning and implementation.

## ■ Proposals to Strengthen the Structures for Management of Fiscal Decentralisation

The key structures that need to be strengthened and/or established include:

- a. Strengthen Units/Focal Point in the respective MDAs to manage fiscal decentralization, including in MoF
- b. Cross-sectoral coordination mechanisms related to fiscal decentralisation.
- c. Proposals to Strengthen LGAs to Perform Assigned Functions

The proposals outlined below should be discussed and final position taken during the development of the FDS.

### **Strengthen Units/Focal Points in the respective MDAs to manage fiscal decentralization**

- Clearly define, elaborate<sup>1</sup> and disseminate the roles of the respective MDAs in the management of fiscal decentralization.
- Assign dedicated staff to manage the respective functions.
- Equip the staff with skills and provide them with the required resources and systems
- Monitor the performance of staff
- Within the Ministry of Finance, there should be a clear responsibility centre for monitoring and analysing the total level of resources allocated to LGAs, and its sectoral and functional (i.e. PE, ORT, development) composition. This would allow MoF to analyse whether resource allocation to LGAs is in line with the Governments broader policy commitments and objectives.

### **Establish/strengthen cross-sectoral coordination mechanisms related to fiscal decentralisation**

- Propose to establish a multi-sectoral coordination

structure/committee or mechanism to among others provide strategic guidance on issues of fiscal decentralisation. For example: (i) the degree to which LGA should be granted autonomy in budget allocations and/or adhere to nationally determined policy prioritizations; integration of DP funding into grant structures and the reporting structures; and (ii) the objectives and allocation formulae for the respective grants as well as budget, implementation and reporting arrangements for the respective grants.

- The committee should be chaired by NLGFC and composed of representation from among others MoF, MoLG and all MDAs making transfers to LGs.
- Parliament should provide oversight over the implementation of the Fiscal decentralisation and protection of LGA financing. Parliament should be provided with appropriate data by the lead institutions (MoFEPD/NLGFC) to effectively undertake this role as part of the budget approval process.

### **Proposals to Strengthen LGAs capacity to Perform Assigned Functions in relation to fiscal decentralisation**

- Proposals/options for filling critical positions
- Proposals for equipping staff with the required skills and competencies
- Continue and deepen the performance assessment and improvement framework initiated under Governance to Enable Service Delivery (GESD) to provide incentives for improved performance
- Deepen annual LAPA process that monitors LGA's functional and service delivery capacity;
- Annual performance improvement support from central government (coordinated by MLGRD / LAPA Task Force).

<sup>1</sup> Detail for example the rationale/objective, the procedures/how it should be implemented, the timing and the nature of the deliverable.



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