THE STATE OF FISCAL DECENTRALIZATION IN LOW INCOME COUNTRIES

Roy Bahl
(rbahl@gsu.edu)
Georgia State University
Bangkok, December, 2019
PRESENTATION OUTLINE

• What is Fiscal Decentralization?
• Why are subnational governments an important component of national economic development policy in low income countries?
• What discretionary fiscal powers could SNGs be given?
• There are viable revenue raising options but the implementation of these has lagged or not been adopted.
• Are there new considerations that might stimulate fiscal decentralization?
• What are some possible guidelines for the next steps?
WHAT IS FISCAL DECENTRALIZATION?

- What do we mean by “Empowerment”? Definition: “The empowerment of local populations by the empowerment of their local governments”.
- What do we mean by “Local Governments”
- How do we measure the fiscal importance of SNGs?
- Science vs. Politics

<table>
<thead>
<tr>
<th>Countries</th>
<th>SNG expenditures as a percent of GDP</th>
<th>SNG Taxes as a percent of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Income</td>
<td>13.9</td>
<td>6.4</td>
</tr>
<tr>
<td>Low Income</td>
<td>5.9</td>
<td>2.4</td>
</tr>
</tbody>
</table>
WHY FISCAL DECENTRALIZATION?

• Economic Development
• Elected Government
• Inefficient Centralization
• Uniformity not acceptable
• Autonomy vs. Dissolution
• Accountability down
HOW TO DECENTRALIZE?

- Assignment of expenditure responsibility
- Assignment of revenue raising powers
- Shift to unconditional grants
- Allow SNG borrowing and Assign debt repayment responsibility
- Reduce mandates
WHAT IS THE PRESENT STATUS OF SNG TAXATION IN ASIA? WHAT ARE THE OPTIONS?

• Weak property and land taxation. Raise rates, improve administration. Present average revenue levels as percent of GDP are 2.2% in Industrial countries and 0.6% low income countries.
• Raise user charges to cover full cost
• Impose taxes on services (China, Brazil)
• Impose payroll taxes (formal vs informal sectors)
• Increase motor vehicle taxes and charges
• Tax or surtax on public utility bills, e.g., electricity, telephone
• How to set the tax rate
IS THE TIMING RIGHT FOR INCREASED SNG REVENUES IN ASIA?

Positive Signs

• Weak national revenue mobilization, strong urban growth
• There may be a taste for empowerment of local populations
• Who will pay for better urban services

Negative Signs

• Taxpaying culture
• Central (state) governments want to hold power
• Urban areas are the cash cow
• Urban Government structures may limit tax base choices
WHAT DID WE LEARN FROM THE THREE CASE STUDIES?

• Centralized systems are well entrenched in some countries, and decentralized systems in others, so no one reform solution will fit all?
• Marginal solutions are more likely to be sustainable than big bangs.
• Answers to revenue mobilization problems may be on the expenditure side of the budget or in regulations.
• Fiscal instruments need to be supported by good fiscal planning.
• Cities can Learn much from one another.
SOME GUIDELINES FOR TAKING THE NEXT STEPS

• Set up a commission to develop and maintain a national policy on fiscal decentralization. Data assembly and structure could also be an important component of this activity.

• An asymmetric system with more fiscal power given to urban local governments should be given consideration.

• Integrate urban planning and fiscal planning

• The Commission TOR should include revenue assignment, expenditure assignment and regulations that effect SNGs.
References
