

Effective Decentralization for Sustainable Urban Development: International Governance Best Practices

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Abstract

This paper brings together key features of urban decentralisation in India with specific reference to key challenges and opportunities. It is noted that actions have been taken to empower elected representatives, devolution of functions and fiscal autonomy. Yet, there is further scope to revisit tenure and powers to Mayors, better coordination between elected and executive wing, citizen centricity. It is in this context that future decentralisation needs to move taking into account good practices in India and elsewhere. Certain innovations such as core competencies and non-core competencies in Spain, Public Rating of Municipalities in Columbia, Fiscal decentralisation and empowerment in Canada, Participatory Planning in Brazil, approach to strengthen human resources in Chile and creation of equalisation fund in Kenya deserve due attention while looking into urban decentralisation in India.

Keywords: Devolution of functions, functionaries and funds, empowerment of elected representatives, core and non-core competencies, fiscal decentralisation, rating of municipalities, participatory planning and equalisation fund.

Introduction

Governance is a key concept in the sustainable development debate which involves a continuous process of negotiation and contestation over the allocation of social and material resources and political power.¹ Indeed, urban governance, refers to how all levels of government (local, regional,

¹ UN-Habitat, 2022, <https://unhabitat.org/topic/urban-governance>

and national) and stakeholders decide how to plan, finance, and manage urban areas.² The **2030 Agenda for Sustainable Development**, which represents the main global framework addressing the critical global challenges, is augmented by a set of principles of effective governance for sustainable development (“**CEPA principles**”)³ which represent the universal norms, values, and basic rules of the game. These principles ensure that decisions regarding the Sustainable Development Goals (SDGs) are made in a **transparent, participatory, inclusive, accountable, and responsive** manner.⁴ These principles are also complemented and articulated into governance-related sub-goals in all SDGs. For example, SDG 16 includes a specific focus on *effective, accountable, and inclusive* institutions as an intrinsic component of sustainable development processes. These elements provide a powerful and unprecedented impetus for governments at all levels to devote specific attention to *designing and implementing governance mechanisms* that effectively support universally set objectives. The **New Urban Agenda**⁵, in paragraphs 87-92, promotes the localization of these key principles.

Effective governance centers around the concept of sound decentralization. This is typically reinforced by the principles of subsidiarity and proportionality, which suggest that local representatives are in a better position to comprehend and address the specific needs of their local communities.⁶ **Constitution, laws and regulations** codify the rules by which a decentralized system functions and their effectiveness cannot be overlooked given that decentralization has direct linkages to poverty

² Ibid.

³ UN ECOSOC (2018). Principles of effective governance for sustainable development. Economic and Social Council E/2018/44-E/C.16/2018/8, para. 31

⁴ According to UNDP (2021), supporting effective governance involves accountability, transparency, inclusion and responsiveness, i.e., addressing what is done (institutions, laws, personnel), how it is done (participation, transparency, trust) and for whom it is done (people centered).

⁵ The New Urban Agenda is an action-oriented document that mobilizes Member States and other key stakeholders to drive sustainable urban development at the local level. It was adopted at the United Nations Conference on Housing and Sustainable Urban Development (Habitat III) in Quito, Ecuador, on 20 October 2016. It was endorsed by the United Nations General Assembly at its sixty-eighth plenary meeting of the seventy-first session on 23 December 2016.

⁶ Paul Lundberg, (2004), ‘Decentralized Governance and a Human Rights-based Approach to Development.’

alleviation because it could increase peoples' awareness of their rights and entitlements, empower citizens to have a genuine say in matters that affect them directly and ensure that public officials operate in an efficient, transparent and accountable manner in the management of public affairs.

While decentralization has been described as a "revolution" in governance and a priority for global institutions and literature for the past three decades, the results have been unequal. A pervasive argument against decentralization is that some of the worst examples of corruption are found at the local level where politicians and administrators enjoy minimal oversight.⁷ Oversight by higher levels or different spheres of government can provide accountability in the planning process, but the line between oversight and corrupt interference is slippery.⁸ The technical staff within a government responsible for planning and the daily management of services risk being ousted by local political elites when their interests do not align.

This is why decentralization is not an end, but rather a means to achieve greater political accountability and more efficient delivery of services which involves three interdependent dimensions: **political, administrative and fiscal**.⁹ Effective decentralization requires a clarification of roles based on the level of government best positioned to be effective stressing the need for a clear identification of **who does what, at which scale, and how**. Additionally, national government is not irrelevant in the design and implementation of local transformations as it is crucial to create enabling macroeconomic policies, streamline institutional environments and effectively devolve authority to local levels for contextual implementation.¹⁰ Finally, effective decentralization can only be realized if fiscal authority is reconciled with the delivery of functions expected from local governments by their national governments. The limited fiscal autonomy of local governments, dependency on central government fiscal transfers, and

⁷ CIVICUS (2018) 'Democracy for all: Beyond a crisis of imagination' <https://www.civicus.org/documents/reports-and-publications/reimagining-democracy/democracy-for-all-en.pdf>

⁸ Alexander, C., S. Berrisford, L. Nkula-Wenz, D. Ndhlovu, G. Siame, V. Watson, and D. Zinnbauer (2022) 'Challenges and opportunities of curbing urban corruption and building professional integrity: Experiences of planners in South Africa and Zambia', Habitat International 122 (in press)

⁹ UN-Habitat (2022) *Envisaging the Future of Our Cities: World Cities Report*.

¹⁰ Ibid.

competition for resources between subnational governments are factors that limit effective decentralization.¹¹

Urban Decentralization in India: Challenges And Opportunities

In 1992, the Indian Parliament passed the landmark 74th Constitutional Amendment Act in the spirit of handing over “Power to the People” by empowering the third tier – local governments. The decentralization and devolution entailed reforms for political, functional, and fiscal empowerment of urban local governments. State governments were required to amend the requisite state laws to enable the devolution of power. The highlights of the constitutional amendment include:

Elected Representation at Local Levels

To enable self-governance in cities and urban jurisdictions, the amendment requires direct election of all members of a municipal council led by a chairperson/mayor, leaving the method of election of the latter to sub-national legislatures. Affirmative action for gender equality was given prominence with requirement for 33% representation of women and marginalized groups in elected councils.

Devolution of Civic Functions

Urban Local Bodies (ULBs) were assigned 18 civic functions which ranged from poverty alleviation, urban planning, land use regulation, provision of water supply and basic infrastructure, public services such as health to managing vital statistics (birth/deaths), safeguarding interests of weaker sections of society, among others.

Fiscal Autonomy for delivery of functions

Recognizing the need for fiscal empowerment as crucial for delivery of civic functions, State Finance Commissions were required to be established to make recommendations on, “(i) taxes, duties, tolls and fees that should be shared between the state and municipalities; (ii) taxes, duties, tolls and fees that may be assigned to municipalities; (iii) grants-in-aid for municipalities;

¹¹ Ibid.

and, (iv) any other measure that would improve the finances of municipalities.”¹²

In addition to the above core reforms of the 74th constitutional amendment, the following priority areas essential for good local governance are prevalent across states in India:

Participatory Budgeting: Cities have adopted participatory budgeting to varying degrees. Bangalore was among the first cities to embed citizens’ priorities in the budget. More recently, Pune has successfully approached citizen engagement in partnership with local NGOs.

State level Ombudsman Act: Establishing an independent grievance redressal mechanism for instilling accountability in local government officials and elected representatives was also taken up by several states. The mechanism allowed monitoring the deficiencies in the system, addressing issues of corruption and inefficiency in urban governance.

Right to Public Services Legislation: Many states enacted the Right to Public Services Act between 2010 and 2015, which created time-bound guarantees in delivery of public services rendered by Government to the citizens. Many of these public services such as, issuing caste, birth, marriage and domicile certificates, electric connections, voter's card, ration cards, copies of land records, are the functions of local governments. The Act includes provision for penalizing or undertaking disciplinary proceedings on officials if a citizen’s complaint for failure to comply with time-bound service delivery is accepted.

Social Audits and Citizen Report Cards: The advent of technology has promoted people-centric performance review of ULBs. The flagship national urban missions of India incorporate tools such as an Integrated Command and Control Centre (ICCC) and associated mobile applications that enable urban residents to report civic issues to the municipal authority. The means of reporting include geo-tagged pictures to enable effective grievance redressal. Moreover, such programmes have sought to build a

¹² India Habitat III, National Report 2016. Ministry of Housing and Urban Poverty Alleviation, Government of India, 2016, New Delhi.

framework for the performance review of ULBs led by a city’s residents. For example, the Municipal Performance Index and the Ease of Living Index introduced by the Ministry of Housing and Urban Affairs (MoHUA) measure the feedback and perception of a city’s residents, among other parameters, to give a comprehensive score and ranking to the participating municipal bodies¹³. The attempts to introduce people-centric approaches to the assessment of a ULB are not limited to state-led endeavours. Several non-governmental bodies have collectively pioneered mechanisms for social audit and people-centric performance review of ULBs. Examples include a periodic city report card introduced in 2017 (see Figure 1) and an urban governance index published in 2020 (see Figures 2 and 3)^{14 15}



Figure 1: A excerpt from a city report card published by a non-governmental organization. Source: Janaagraha.

Persistent Challenges of Decentralized Local Governance

¹³ Smart Cities Mission. N.d. “Ease of Living Index (EoI) and Municipal Performance Index (MPI)”.

https://smartcities.gov.in/Ease_of_Living_Index_and_Municipal_Performance_Index

¹⁴ City Report Cards are published by Janaagraha as part of its Annual Survey of India's City-Systems (ASICS).

¹⁵ Praja Foundation. Praja’s Urban Governance Index 2020. December 2020. Pune. https://www.praja.org/praja_docs/praja_downloads/UGI2020.pdf

Despite the landmark reforms recommended under the 74th Constitutional Amendment, urban local governance continues to suffer legislative, administrative, and fiscal setbacks. An Urban Governance Index published in 2020, finds that an overwhelming number of urban jurisdictions across the country are underperforming as decentralized and devolved entities of governments (see Figures 2 and 3), when measured on: (i) Empowered Elected Representatives and Legislative Structure, (ii) Empowered City administration, (iii) Empowered Citizens, and (iv) Fiscal Empowerment¹⁶.

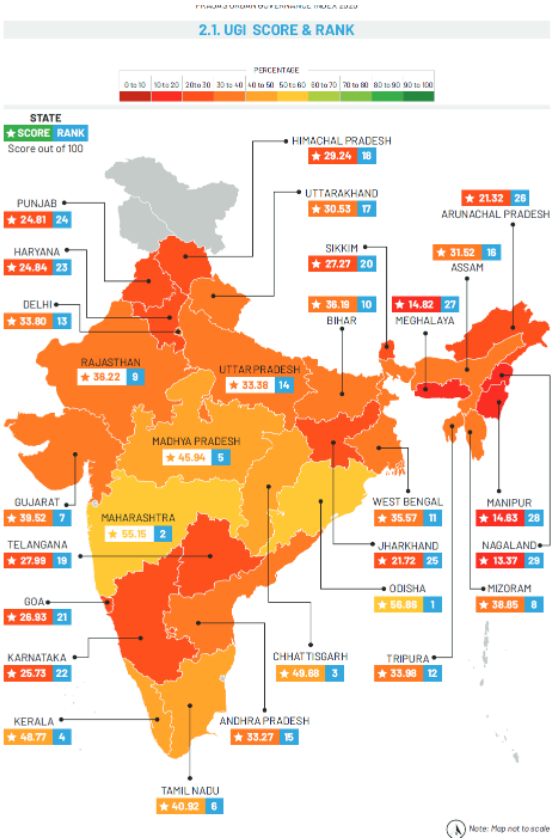


Figure 2: Performance of the states in an urban governance index published in 2020. Source: Praja Foundation

¹⁶ Ibid.

Elected Representation and Legislations:

Local level representation is through an elected city council headed by Mayor, either elected directly by the citizens (Executive Mayor System) or by city councillors (mayor-in-council). While the constitutional provisions stipulate a five-year term of office for the council, the term of the Mayor varies from one year to five years. However, the power of mayors is diluted due to a number of factors, namely, the tenure of Mayor is not coterminous with city government (Arunachal Pradesh, Delhi, Goa, Gujarat, Himachal Pradesh, Karnataka and Maharashtra); lack of authority to appoint chairperson of standing committees; in as many as 15 states, the Mayor is not the chairperson of the apex committee, among others.

Weaknesses in city council and councillors are prevalent because of following conditions: only in 13 states, do councillors receive a fixed salary; not adequately equipped to perform day to day functions as majority of states do not have procedures of conduct and business rules, among others.

City Administration

The fragmentation and duplication of roles and responsibilities across the state, parastatal and local level entities has been a persistent issue. Furthermore, parastatal entities weaken the administrative authority of ULBs. For instance, metropolitan level water and sanitation authority are often responsible for undertaking capital works while distribution including operations and maintenance functions are given to the ULBs without adequate financial resources. Another important aspect, which is the administration of the ULBs itself, is equally weakened. Only four states (Goa, Tamil Nadu, Uttar Pradesh, Uttarakhand) have the authority to sanction recruitments. Most importantly, no state has fully devolved all 18 functions to the ULBs listed in the 74th Constitutional Amendment.

Empowered Citizens

Despite provisions to deepen citizen engagement and participation in decision-making in planning, managing and financing cities, ULBs have not been able to formalize these mechanisms. Fundamental process for accountability and transparency by means of access to data and important decisions, regular public meetings, and grievance redressal mechanisms, are mostly lacking. For instance, with the exception of Odisha, cities in majority of states have no formal consultative mechanisms for citizens; no state has

the provision to recall a councillor; only six states have managed to reach a median score on the grievance redressal mechanism metric; and only nine states (Andhra Pradesh, Jharkhand, Kerala, Madhya Pradesh, Maharashtra, Mizoram, Punjab, Tamil Nadu and Telangana) have mandatory provision to publish budget and accounts in public domain.

Fiscal Empowerment

A major hurdle to fiscal empowerment is that the cities in majority of states do not have independent authority to introduce or revise new taxes and charges, and in as many as 14 states, cities do not have independent authority to approve budgets. With majority of cities, still relying on intergovernmental transfers, a large share of cities across states (except for Tamil Nadu, Madhya Pradesh, Maharashtra, Kerala) did not report reliability through systematic fiscal transfers.

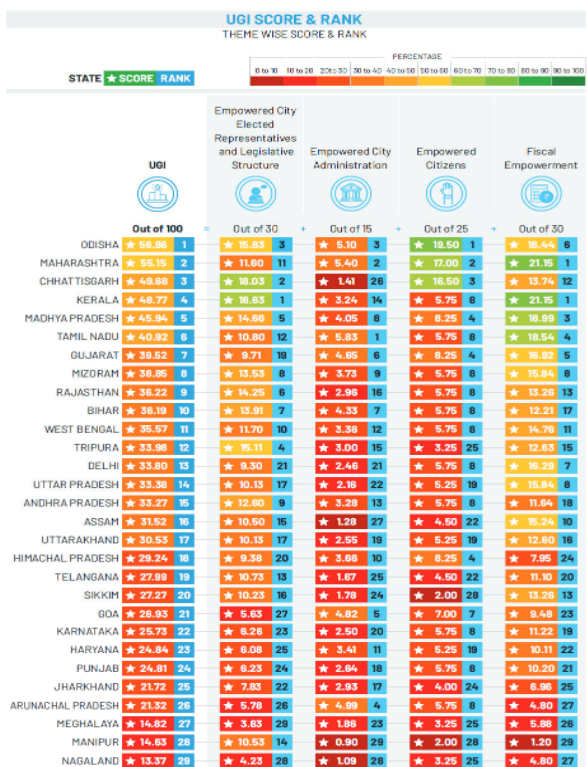


Figure 3: The performance of states across different themes of decentralized local governance in an urban governance index published in 2020. Source: Praja Foundation

The Future of Decentralization: Inspiring Best Practices

As mentioned earlier, decentralization is not an end in itself but should be part of a broader strategy of territorial development. It should be remembered that decentralization reforms tend to take time and the assignment of responsibilities needs to be periodically reviewed. A pragmatic approach to decentralization should be adopted, based on an in-depth analysis of **political, social and economic conditions** of the country. The challenge of designing decentralization has sometimes been compared to a soufflé where all ingredients must be present in the right amounts and prepared in the right way at the right time to achieve success.¹⁷ But ingredients are not enough; the cooking is essential. Even if a decentralization reform is well designed, it can face implementation challenges due to its complex and systemic nature. There is a long and challenging path between theory and practice and between plans and experience in the field, made of “*potholes, detours and road closures*.”¹⁸ Thus, decentralization as a process must receive the attention it deserves.

To improve jurisdictional decentralization, best practice dictates that detailed codification of the various government responsibilities is undertaken in legal and regulatory frameworks, intergovernmental agreements etc., which should be widely disseminated.¹⁹ Such codification should also clarify each subfunction, i.e., the role of various levels of government in oversight, financing, performance monitoring, evaluation, and redress mechanisms.²⁰ In 2013, **Spain** adopted a reform to clarify municipal competencies and prevent duplication under the principle of “**One Administration, One Competence**.”²¹ The Local Reform intends to improve the definition of local competencies through a list of core competencies. Competencies which are not included in this list are referred

¹⁷ OECD (2019), Ten Guidelines for Effective Decentralization Conducive to Regional Development: Making Decentralization Work; A Handbook for Policy-Makers. <https://www.oecd.org/eurasia/countries/ukraine/Ten-Guidelines-for-Effective-Decentralisation-Conducive-to-Regional-Development.pdf>

¹⁸ Ibid.

¹⁹ UN-Habitat (2020), Human Rights, Rule of Law and the New Urban Agenda.

²⁰ Ibid.

²¹ OECD (2019), Ten Guidelines for Effective Decentralization Conducive to Regional Development: Making Decentralization Work; A Handbook for Policy-Makers. <https://www.oecd.org/eurasia/countries/ukraine/Ten-Guidelines-for-Effective-Decentralisation-Conducive-to-Regional-Development.pdf>

to as “non-core competencies”. In the event of any agreements delegating competencies from upper levels of government, usually the Autonomous Communities, to lower levels of government, it is compulsory to provide corresponding resources earmarked for financing the services involved.²²

To alleviate the current and growing fiscal gaps in Indian cities and beyond, there are available mechanisms that can leverage existing revenue to secure integrated financing including from private sector, national government, and pooled borrowing.²³ Most of these mechanisms will require national governments to relax rules regarding local government borrowing. There are inherent risks regarding borrowing that can partially be alleviated by developing funding sources and policy in parallel to developing a vision for intervention and investment. The **Urban Sustainability Framework** states that a best practice principle is to develop a city’s urban development plan as a business plan to be implemented.²⁴ This best practice complements UN-Habitat’s international approaches on national urban plans and multilevel governance arrangements for sustainable urban development; if multiple levels of government have been involved in developing urban plans, in alignment with a national urban plan, then there can be more confidence in national governments relaxing rules around borrowing at the local level.²⁵ A simple, but innovative example has emerged out of **Colombia** in their public ratings of municipalities’ subnational debt.²⁶ A red light identifies a municipality whose ratio of interest to operational savings exceeds 40 percent and whose ratio of debt stock to current revenues exceeds 80 percent. “Red-light” municipalities cannot borrow. “Green-light” municipalities can borrow, while “yellow-light” municipalities can borrow with approval from the central government. The transparency of the formula contributes towards public trust and can potentially lead to independent credit ratings. In **Canada**, subnational governments have access to all the revenue sources, except customs duties. To encourage harmonization of concurrent tax bases, the Federal Government of Canada has, in the past, offered tax abatement (reduction of federal rate to allow more room for provincial tax rates) and tax-base sharing (levying a

²² Ibid.

²³ Global Platform for Sustainable Cities, World Bank. 2018. “Urban Sustainability Framework.” 1st ed. Washington, DC: World Bank.

²⁴ Ibid.

²⁵ Ibid. Also, UN-Habitat (2022), *Envisaging the Future of Our Cities: World Cities Report*.

²⁶ Ibid.

supplementary rate on a uniform federal base) options to provincial governments while waiving cost of federal collection of the provincial share. More recently, it offered provinces and the private sector representation on the board of the autonomous tax collection agency.²⁷

To improve local service delivery, building participatory governance is key. This can include using open government methods such as open and competitive procurement, performance budgeting, citizens right to know, among others. Innovations in accountable and responsive governance is another mechanism and can promote local government as a facilitator of network governance to improve economic and social outcomes. The process of developing a Voluntary Local Review (VLR) is an example of such an innovation. VLRs are a monitoring system to measure progress on the implementation of the SDGs at the local level that have proved to enhance participatory governance. Local communities and key stakeholders are consulted on their perception of the SDGs, as well as asked to share a vision for progress towards 2030. For example, this participatory governance process has been used in the VLRs of Bristol (United Kingdom), Mwanza (Tanzania) and Bhopal (India).

Citizen charters and digital tools are another means to support participation through result-based government accountability. In **Brazil**, the **city of Porto Alegre** represents one of the earliest (1986) and most successful trials in participatory planning and budgeting.²⁸ This process, which involves three streams of meetings (neighbourhood assemblies, thematic assemblies, and meetings of delegates for citywide coordinating sessions) is widely recognized for its positive impact on improved service delivery, especially to the poor.²⁹

Moreover, decentralization needs to be accompanied by capacity building. As more urban functions get devolved, local authorities need to be equipped

²⁷ OECD (2019), Ten Guidelines for Effective Decentralization Conducive to Regional Development: Making Decentralization Work; A Handbook for Policy-Makers. <https://www.oecd.org/eurasia/countries/ukraine/Ten-Guidelines-for-Effective-Decentralisation-Conducive-to-Regional-Development.pdf>

²⁸ Local Government Association Case Studies: [https://www.local.gov.uk/case-studies/case-study-porto-alegre-brazil#:~:text=Participatory%20budgeting%20in%20Porto%20Alegre,Council%20of%20th e%20Participatory%20Budget\).](https://www.local.gov.uk/case-studies/case-study-porto-alegre-brazil#:~:text=Participatory%20budgeting%20in%20Porto%20Alegre,Council%20of%20th e%20Participatory%20Budget).)

²⁹ Ibid.

with the necessary technical and human resources to fulfil their mandates. In 2007, **Chile** created the *Academia de Capacitación Municipal y Regional* to strengthen subnational capacities.³⁰ It aims to be a technical reference for subnational staff and to strengthen human resources in municipal and regional governments to support a broad spectrum of knowledge of use in various territorial situations. It provides free training, in-person and online training for public servants. In addition, a Fund for the Training of Municipal Public Servants was created in 2014, financing technical and professional studies for municipal personnel.³¹ Furthermore, UN Agencies and other international actors are developing develop capacity building programs for local authorities' leaders to enhance their skills in sustainable urban development and leadership, namely The Mayors Academy. This academy strengthens the capacities of Mayors, especially newly elected or appointed mayors/governors by creating a network of leaders and facilitating peer-to-peer learning by city-to-city exchanges. The [Asia-Pacific Mayors Academy](#) was launched in 2019 and similar Academies are being established in Africa and Arab States.

Finally, to address increasing inequalities, it is important to strengthen national regional development policies and equalization systems. National regional development policies are essential to reduce territorial disparities and strengthen urban-rural linkages, as mega-trends have an asymmetric impact on regions and cities within countries and tend to increase disparities. The purpose of fiscal equalization is to enable subnational levels of government to provide approximately comparable levels of public services at comparable tax burdens. Article 204 of the **Kenyan** Constitution (2010) establishes the Equalization Fund which should contain 1.5 per cent of all the revenue collected by the national government each year calculated based on the most recent audited accounts of revenue received, as approved by the National Assembly.³² The Fund is meant to provide

³⁰ OECD (2019), *Ten Guidelines for Effective Decentralization Conducive to Regional Development: Making Decentralization Work; A Handbook for Policy-Makers*. <https://www.oecd.org/eurasia/countries/ukraine/Ten-Guidelines-for-Effective-Decentralisation-Conducive-to-Regional-Development.pdf>

³¹ Ibid.

³² Article 204 of the Kenyan Constitution 2010. <https://www.klrc.go.ke/index.php/constitution-of-kenya/147-chapter-twelve-public-finance/part-1-principles-and-framework-of-public-finance/373-204-equalisation-fund>

basic services to marginalized areas to bring the quality of those services in those areas to the level generally enjoyed by the rest of the nation.

Conclusion and Lessons for Policy Reform

The battle for sustainable development will be won or lost in cities. While urban governance is a multilevel, cross-sectoral and integrated project, a country's level of decentralization, especially fiscal autonomy, affects a local government's ability to operate. Indeed, India, through the landmark 74th Constitutional Amendment of 1992, has spearheaded reforms for decentralized governance to allow greater political, functional, and fiscal autonomy to urban local governments. However, practice has shown that adequate subnational capacity including efficient co-ordination mechanisms across levels of government is essential and it is thus critical to find ways to make decentralization systems work in a more effective way.

This chapter demonstrates, through inspiring global best practices, that subnational governments are particularly well placed to design and implement relevant local development strategies by identifying local comparative advantages and responding to people's needs. The following (non-exhaustive) guidelines can be useful in designing effective decentralized policy and legislative frameworks:

- a. A principled and transparent division of powers is crucial for governments to deliver on their mandates and be held accountable by citizens. This is especially desirable for shared rule, i.e., when a function is the joint responsibility of several levels of government as is often the case in the provision of education, health and social welfare due to their redistributive nature.
- b. Consistency between revenue-generating means with expenditure needs is conducive to political accountability and responsiveness to local preferences. This is especially so when revenue means are dominated by own or concurrent tax revenues.
- c. Subnational governments work best when local residents self-finance local services through local taxes and charges. This enhances the efficiency and accountability of local service provision by encouraging local residents to evaluate the costs and benefits of service provision.

- d. Administrative, institutional and strategic capacity including frequent capacity-building is critical to the working of a subnational government. This is especially critical for urban development strategies that require substantial citizen input and co-ordination across and beyond governments.
- e. Participatory governance offers citizens an opportunity to learn about government operations and to deliberate, debate, and influence the allocation of public resources. It is a powerful tool to hold locally elected leaders accountable for their decision-making.
- f. Asymmetric decentralization needs to go hand in hand with an effective equalization system to deal with increasing inequalities. Fiscal equalization transfers are advocated to deal with regional fiscal equity and fiscal efficiency concerns. These transfers are justified on political and economic considerations.