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(JIRP) **The Role of Intergovernmental Organizations on Poverty
Reduction in Africa. A Critical Literature Review.**



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The Role of Intergovernmental Organizations on Poverty Reduction in Africa. A Critical Literature Review.

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Abstract

Purpose: Fiscal decentralization will increase the degree of efficiency in the allocation of resources because sub-national governments have an information and proximity advantage over central governments when it comes to responding to the needs and preferences of local citizens. The overall objective of this study was to examine role of intergovernmental organizations on poverty reduction.

Methodology: The paper used a desk study review methodology where relevant empirical literature was reviewed to identify main themes and to extract knowledge gaps.

Findings: The study concluded that fiscal decentralization has distributive effects. The effect of fiscal decentralization on poverty reduction outcomes and human developments depends on the nature and design of fiscal decentralization, the extent of fiscal decentralization and county specifics. Since fiscal decentralization is implemented in various forms such as intergovernmental transfers, own source revenue assignment and expenditure decentralization, the effects of each of these were analyzed. The conclusions from the findings are presented in the following paragraphs. From the findings related to intergovernmental transfers the study concludes that intergovernmental transfers increase poverty incidence at low levels below 18.42 percent.

Unique Contribution to Theory, Policy and Practice: It is recommended that it's most appropriate for national government to be in charge of administration of welfare and equity programmes. This is because intergovernmental transfers and county expenditure were associated with increasing poverty and also have no effect on income inequality and health outcomes in the counties in Kenya. The administration of welfare and equity programmes such as cash transfer programmes, child nutrition, and maternal health care will be more beneficial if implemented and coordinated by the national government.

Keywords: *Role, Intergovernmental, Organizations, Poverty, Reduction.*

INTRODUCTION

The transfer of expenditure responsibilities and revenue assignments to lower levels of government such as intergovernmental organizations have positive effects on poverty reduction since it is likely to make the voice of the poor better heard; improve their access to and the quality of public goods and services and reduce their vulnerability (Sepulveda & Martinez-Vazquez, 2020). The transfer of these responsibilities is termly known as Fiscal decentralization. Fiscal decentralization offers the opportunity to set up democratic institutions in which the poor can actively participate, decide and lobby for their interests. The proximity and information advantage of the local government may lead to a better matching of local needs and better policies. This will bring about efficiency gains, in particular in the area of service delivery in terms of access, quality and targeting. Enhanced efficiency in service delivery can directly improve access by the poor to basic services, such as education, health, water, sewage and electricity.

Public participation and capacity of citizens to monitor local officials is higher in a decentralized system. Thus, there are opportunities for an increase in transparency and accountability leading to a reduction in corruption and an overall improvement in local governance. This is expected to help in reducing the vulnerability of the poor. Good governance has been found to improve a variety of outcomes, such as school achievement, quality of life indicators, or even GDP growth (Kaufmann et al., 2020). In countries where the state lacks the capacity to fulfill its basic functions and in environments with high inequalities at the outset, there is a definite risk that decentralization will increase poverty, rather than reduce it (Bardhan & Mookherjee, 2018). This ambiguity suggests that the link between fiscal decentralization and poverty reduction is not clear-cut and that the outcome is largely influenced by country specificities, as well as by the structure and design of fiscal decentralization

Fiscal decentralization initiatives are also taking place in developing nations such as Mexico, Brazil, Bolivia, Belarus, South Africa, and Nigeria. The fiscal decentralization trend in developing countries is supported by the World Bank, which considers fiscal decentralization as a main part of its poverty reduction programs (World Bank, 2016). While the theoretical justification for fiscal decentralization is sound, its practicability differs in federal systems, based on historical antecedents and culture. The German federal system is highly centralized. In the United States, the major feature of the federal system is the major role played by sub national governments in shaping the political life of the country. The federal government enjoys some latitude or power, as a lender of funds to state and local governments and the powers of the lower levels of government are highly restricted (Musgrave & Musgrave, 2019).

The Canadian federal system represents a highly decentralized model of fiscal federalism. The objective of intergovernmental fiscal relations in Canada has been in the direction of reducing financial concentration at the centre (Moore, Harvey & Beach, 2015). Public sector financing is highly decentralized and this has enabled the achievement of some degree of autonomy of the Canadian provinces. Although a high degree of fiscal decentralization is evident in Canada, this

conflicts with distributional objectives, given the size and large income disparities among the provinces. Intergovernmental grants equalize the ability to pay for public services and correct imbalances. During the 1980s, the economic reforms in the developing countries focused largely on increasing the role of the market and improving the environment in which it operates (Smoke, 2001). Since the 1990s, fiscal decentralization and local government reform have become among the most widespread trends in development (World Bank, 2020).

For developing countries, fiscal decentralization is believed to be a solution to all kinds of social, economic and political problems being faced such as income and wealth inequality, distributional inequities, poverty and regional marginalization. But fiscal decentralization can also lead to problems that offset its benefits (Prud'homme, 2015). Developing countries and transition economies have also embraced fiscal decentralization. State government borrowing from the central government has created serious fiscal stress for a number of states (World Bank, 2019).

In China the overall economic reform, macroeconomic and monetary policy, and problems of interregional imbalance interact with intergovernmental fiscal relations. One fundamental aspect of Chinese reform has been the reduction of the role of state planning and control in the operation of the economy. The fiscal arrangements that evolved during the Mao period proved to be poorly adapted to a more market-oriented economic system. A series of reforms involving changes in tax bases, tax administration, and the division of revenues between lower and higher-level governments has also been implemented (Bahl & Wallich, 2018; Agarwala, 2014). In Africa, Ghana has a unique decentralized system of government introduced in 1988, when the Government embarked on the implementation of a comprehensive policy to decentralize (World Bank, 2020).

Decentralized governments in Ghana are mainly financed through own revenues and central government transfers. The composition of sub-national government revenue in Ghana is as follows in percentage of total revenue: own taxes (22 percent), user fees (9 percent) and central government transfers (69 percent). This shows a heavy dependence on the transfers from central government. Rwanda's strategy for decentralization is another good example. According to the strategy, "the overall mandate of the decentralization is to ensure political, economic, social, administrative and technical empowerment of local populations to fight poverty by participating in planning and management of their development process" (Smoke, 2021).

In South Africa, the Constitution of 1996 provides for three spheres of government national, provincial and local. All three spheres are evolving, and the role of both provinces and local governments has increased significantly (Smoke, 2020). This has empowered provincial legislatures; more clearly defined the role of provincial governments, and allowed them some degree of autonomy. The most important municipal services include water, sanitation (including solid waste), roads, storm water drainage, and electricity. Local governments are also granted a number of sources of revenue by the Constitution, and they are also given the right to borrow, except to finance a recurrent deficit. The nature and practice of fiscal decentralization therefore, varies from one country to another. The fiscal responsibility and power of sub-national

governments on expenditure, revenue and borrowing vary across countries. Even the intergovernmental transfer arrangement varies widely across countries. It is therefore, expected that the impact of fiscal decentralization will also vary from one country to another depending on the behavior of the sub-national government, level of influence exerted by the national government, level of development, the institutional and political structure of the country in question

Statement of the Problem

Fiscal decentralization is expected to enhance prospects for higher economic growth and improvement of human social welfare. However, its role in promotion of social, economic welfare and equity has been questioned (Musgrave 1959; Oates 1968, 1972; Brown & Oates 1987; Prud'homme, 1995; Tanzi 1996; Qian & 26 Weingast 1997; Kim et al., 2003; Akai & Sakata, 2004; Kanbur & Zhang, 2005; Bonet, 2006). The empirical studies on fiscal decentralization have endeavoured to quantify its effect on economic growth, poverty reduction and inequality, have provided contradictory outcomes. Some studies found positive effects of fiscal decentralization on inequality (Kim et al., 2003; Beramendi, 2003; Rodriguez-pose & Gill, 2004; Kanbur & Zhang, 2005; Bonet, 2006; Neyapti, 2006; Morelli & Seaman, 2007), while others found negative effects (Weingast, 1995; McKinnon, 1995; 1997; Qian & Weingast, 1997; Akai & Sakata, 2005; Shankar & Shah, 2003; Gil Canaleta et al., 2004; Widhyota, 2008; Ezcurea & Pascual, 2008; Tselios et al., 2011; Sepulveda & Martinez-Vasquez, 2011). The existing literature does not therefore, provide any definitive conclusion on the relationship between intergovernmental organizations on poverty reduction. This study will therefore bridge the gap by looking at role of intergovernmental organizations on poverty reduction.

Objective of the Study

The overall objective of this study was to examine role of intergovernmental organizations on poverty reduction.

Significance of the Study

This study provides policy implications that could help formulate improved social and economic development agenda for both national and county governments to reduce income inequalities. Commission on Revenue Allocation (CRA) for example, could find the findings of this study useful when making recommendations on sharing of equalization fund among the marginalized counties. County officials would also find the results useful in planning and designing programs and action to ameliorate inequalities and improve the human development in their counties. In addition to its relevance to policy makers, this study adds to the academic discourse on effects of fiscal decentralization on poverty and regional inequality. It provokes further research on fiscal decentralization and wellbeing.

THEORETICAL REVIEW

This study will benefit from the theory of fiscal decentralization proposed by Musgrave 1959.

Theory of fiscal decentralization

The theory of fiscal decentralization that examines the channels through which fiscal decentralization affects poverty and income inequality. Much of the underlying theory of fiscal decentralization is based upon Musgrave's (1959) functions of government. Musgrave (1959) defined the main economic role of government as threefold that is: allocation, distribution and stabilization. According to Musgrave (1959), the role of government in maximizing social welfare through public goods provision (allocation) should be assigned to the lower tiers of government following the principal of subsidiarity also referred to as the efficiency criteria which states that goods and services should be provided at the lowest tier of the government. The central government must also provide certain "national" public goods like national defense that provide services to the entire population of the country.

Decentralized levels of government should have responsibilities in the provision of goods and services whose consumption is limited to their own jurisdictions. This theory can be used to explain the current devolution in Kenya and particularly the assignment of functions and tax to the county government. Tiebout (1956) illustrated a model in which efficiency in public goods consumption is associated with competition among local jurisdictions, whereby individuals are sorted according to their preferences for public goods and services. Individuals will vote with their feet and locate to jurisdictions that offer the bundle of public services and taxes they like best. Pareto efficiency will be achieved without government intervention. According to Tiebout (1956) the inter-regional mobility of the population to jurisdictions where their wants are best satisfied and competition between jurisdictions for residents can enhance efficiency gains. Indeed, such a scenario would encourage the various regions to compete with one another by attracting possible migrants, making more efficient use of their resources, and promoting economic development and growth. Productive factors could be attracted to the regions with appropriate policies. This would create differences in regions, and result in fiscal competition pressures which can enhance the market system (Weingast, 1995). The basic assumptions of the Tiebout model are: no externalities from government activities; complete mobility of individuals; people have complete information; there enough jurisdictions to satisfy each individual demands; public goods are financed by a proportional property tax; and jurisdictions can enact exclusionary zoning laws. Most of these assumptions are unrealistic in the real world.

People are not perfectly mobile; there are probably no enough jurisdictions to accommodate each individual. In addition, in many jurisdictions there are massive heterogeneity hence different desired levels of public service provision contrary to model implication. However, within most metropolitan areas residential segregation by income, exclusive zoning with varying level of public services is observed. The traditional theory of fiscal federalism is sceptical about the assignment of redistribution functions to sub-national governments (Stigler, 1957; Musgrave, 1959; Oates

1968; 1972; 1999; Brown and Oates, 1987). This is built on efficiency ground and the national government is considered the most able to make interpersonal comparisons of individuals' well-being over the national territory. According to this approach, the pursuit of an overall horizontal equity principle calls for the withdrawal of decentralization, since local governments are likely to follow their own equity targets independently from each other resulting to unfavourable effects on the overall income distribution within the country leading to some kind of "different treatment of equals" (Sacchi & Salotti). Thus, it's only central government that can satisfy the horizontal equity criterion following equality principles (Musgrave 1959; Steve 1976). In other words, fiscal decentralization is likely to weaken the capacity of the central government to play an equalizing role across individuals through social and territorial transfers. This in turn reduces the ability of the country to achieve a more balanced distribution of income across citizen.

Fiscal decentralization will increase the degree of efficiency in the allocation of resources because sub-national governments have an information and proximity advantage over central governments when it comes to responding to the needs and preferences of local citizens. Especially in the case of a nation with heterogeneous regions, decentralized officials are in a better position to meet local demands more efficiently (Oates, 1972). Decentralization theorem upholds that in case there are different preferences for public goods between jurisdictions the uniform provision of these goods by the national government will achieve a lower level of efficiency than one that can be attained by a decentralized provision that allows for diversity across jurisdictions. These efficiency gains will be further enhanced by the mobility of the population. This theory is applicable in Kenya due to diversity of counties and other administrative and political units though mobility of people is somewhat imperfect. However, this theory is much applicable in Kenya particularly in explaining why some counties are likely to do better than others. As result, the price of the redistributive programs would tend to increase while the tax base of the jurisdiction would tend to erode, making the program ineffective and unsustainable. The case against active redistributive role of sub-national governments clearly depends on the inter-jurisdictional mobility of the population and productive factors. If mobility is present, inefficient outcomes are likely. This fiscally induced migration causes economic distortions and inefficiencies in public sector.

However, with imperfect or cost mobility sub-national governments may become more effective and even efficient in the implementation of redistributive policies. Pauly (1973) showed that under limited mobility not only that the size of redistributive programs increases with decentralization, but also the redistributive performance of sub-national governments is superior to that of central government. In addition inter-jurisdictional mobility itself can have important consequences on poverty and income inequality. As individuals seek to increase their real income they sort out themselves among jurisdictions offering different bundles of public goods/services and tax burdens which may alter poverty and redistribution of income. Mobility also affects the supply of productive factors and thus also their marginal productivity and return (Wildasin, 1994). Interjurisdictional mobility can also affect poverty and income distribution since it can plausibly alter the tax and expenditure policies by sub-national governments. According to Tanzi (1996), the

preferences of individuals living in the same country are likely to be quite similar, and lack of coordination among sub-national governments could undermine the degree of efficiency of public intervention.

Likewise, the presence of spatial spillovers might result in an inadequate level of provision of some public goods (Kelejian & Robinson, 1997). Prud'homme (1995) and Peterson (1995) affirmed that the fiscal decentralization could have regressive effects on redistributive, as a result of the weakening of the equalization role of central government. Prud'homme (1995) argued that a centralized public sector generates a more balanced spatial distribution of income by channeling resources from richer regions to poorer ones. Therefore, it is national government that can only satisfy the horizontal equity criterion following equality principles (see also Musgrave 1959 and Steve 1976), since fiscal decentralization weakens the capacity of the national government to play an equalizing role across individuals and regions through social and territorial transfers; this in turn reduces the ability of the country to achieve a more balanced distribution of income across citizens. These views are consistent with Keynesian theory that weaker central state would play a less crucial role in redistributing income among regions, and could not use demand side policies, such as public investment, to promote economic growth in the poorer regions. Again, more diffusion in social policies such as education and health could also lead to an increase in disparities among decentralized countries. Within the framework of the second-generation models of fiscal federalism, Weingast (1995) and Qian and Weingast (1997) stressed the incentive effects of regional competition following fiscal decentralization. Their arguments rested on the premise that the behaviour of sub-national governments is conditioned by the need to represent citizens and to preserve markets. Thus, the ability of regional and local governments to stay in power depends decisively on their performance in attaining a level of development and economic growth similar to that enjoyed by the rest of the country (Shankar & Shah, 2003).

In this scenario, the poorer regions might reduce their development gaps by offering more flexible labour markets and/or less generous welfare provisions than richer regions. "Jurisdiction competition can therefore reduce regional inequality without centrally-mandated redistribution" (Qian & Weingast, 1997). McKinnon (1995) highlighted the relevance of fiscal competition when it comes to explaining the process of regional convergence that took place in the United States after the Second World War (Ram, 1992). This was also a crucial contributing factor in the striking economic dynamism displayed by Ireland during the 1990s, which allowed that country to overcome the disadvantages arising from its peripheral location in the European context (European Commission, 2004). Tresch (2002) stated that an optimal model of fiscal federalism requires a context in which all levels of government can simultaneously maximize their welfare function without falling into the problem of "incompatible distributional objectives". This scheme allows for a successful fiscal decentralization of the redistributive function as each level of government is engaged in the redistributive activity to meet the conditions of interpersonal equity that provide the maximum social welfare. Thus, a more equal distribution of income within the country may be enhanced only if there is no cross-border mobility that permits effective within region

redistribution. If, by contrast, interregional mobility is costless, the relocation of potential recipients and donor-tax payers could lower the effectiveness of local redistribution. Besley and Coate (2003) and Faguet (2002) developed a theoretical model to explain the responsiveness of local government to the provision of public goods. Besley and Coate (2003) found that decentralization enhances welfare in the absence of spillover effect, while Faguet (2002) showed that the tradeoff between central and local government provision depends on the relative advantage over information and technical capacity of each level of government. Morelli and Seaman (2007, p. 524), “devolution will increase equality if resources are utilized more efficiently than under a more centralized system”. To conclude, the theoretical contributions on the effects of fiscal decentralization on poverty reduction and income inequality is ambiguous. Thus, its evaluation seems to be an empirical issue.

Empirical Review

Jackson (2022), conducted a study on the focal point of the study and these include; exploring the security state and cross-border disarmament campaigns and the recurring security challenges that face cross-border disarmament campaign along the Turkwel River Belt Secondly, examining the inter-governmental policy measures. Finally, exploring roles played by professionals and community elites in cross-border disarmament. Primary and secondary research was applied in equal measure to support in collecting adequate data for the study subject. Primary research focused on interviews, questionnaires, and observation as tools for data collection targeting different research informants and respondents ranging from county and sub-county officers, national government officials, community professionals and elites, community residents, and respondents from non-governmental organizations and international bodies. Based on the outcome of the study, the cause of the conflict was majorly associated with high poverty index and major focus to pastoralism rather than diversifying to other socio-economic activities as part of the strategy to protect regional integration. The study however presented a conceptual gap as if focused on exploring the security state and cross-border disarmament campaigns and the recurring security challenges that face cross-border disarmament campaign along the Turkwel River Belt while our study will focus on examining role of intergovernmental organizations on poverty reduction.

Sitienei (2021), conducted a study to evaluate the discontinuities in Kenya-China foreign aid relations between 1963 to 2015. This study adopted the qualitative approach in the analysis of both primary and secondary data consulted. Sampling was done based on a purposive technique and snow balling to reach out the informants who were sourced for primary data. The data from the two sources were corroborated for authenticity and validity. Data analysis was done through critical textual analysis, evaluation and comparison of collected and existing information. The study used realism and rational choice theories. The two theories were used in the interpretation of established primary and secondary data. The study found that there has been changing trends (discontinuities and continuities) on Kenya-China foreign aid relations dictated by internal and

external political developments under different regimes. During the first regime, Kenya-China partnership was not as enhanced as compared to later regimes. The study also generally adds to existing literature on international relations and diplomacy and relations between Kenya and China in particular. The study focused on Kenya-China relations presenting a contextual gap while our study will focus on role of intergovernmental organizations on poverty reduction.

Mutinda (2020), conducted a study on establishing how devolution had shaped the structure of the Provincial Administration in Kenya; examine the extent to which functions of both County and National Government Administrators are interlinked and to identify the challenges faced in the implementation of Schedule Four of the Constitution. Both primary and secondary data were used. The study was guided by the Structural Functionalism theory of Emile Durkheim, which compare the society to an organism comprising of structures that influence each other for its own existence. A case study design was used with Nairobi City County as the study area. A simple random sampling technique was used to select the sample size for the questionnaires from the sample frame. Further the study used purposive sampling technique to select key informants for the interview guide. Spss version 21 and Content analysis were used to analyse the descriptive data. Data was presented in tables, charts and prose form. The study found out that the provincial administration had restructured through change of titles and administrative units but not functions, there were points of roles interlinkages some of which are not procedurally and devolution was facing challenges such as: revenue allocation, administrative and bureaucratic culture, organisational capacity and stakeholder mistrusts. The study however presented a methodological gap as it utilized case study while our study will utilize desktop review approach.

Mwiathi (2018), conducted a study on social economic development, reduce poverty and income inequality and ensure balanced regional development. Despite these efforts, poverty levels have remained high in Kenya. The literature on the relationship between fiscal decentralization and poverty has been rather inconclusive about the effects of fiscal decentralization on poverty. The main objective of this paper was to analyse the effects of fiscal decentralization on poverty in Kenya. Using cross-county panel data from 2002 – 2014 and published data from government agencies, UNDP reports and World Bank reports, the paper estimated various empirical models to analyse the effects intergovernmental transfers, sub-national own-source revenue and county expenditure on poverty in Kenya. The study established that the effect of fiscal decentralization on poverty depends on the nature of decentralization and the extent of fiscal decentralization as well as the county specifics. The study however presented a geographical gap as it focused on Kenya's our study will however look at Africa countries.

Ochanda (2013), conducted a qualitative case study to examine the collective role played by the non-state actors in formulation of the disaster risk reduction policy. Advocacy coalitions Framework approach was used as a theoretical framework to assess their structure and contribution in this process. This study considered non-state actors as a policy subsystem as opposed to analyzing individual contributions. The study established that the main categories of non-state

participants were intergovernmental organisations, international non-governmental organisations, national non-governmental organizations, universities, research institutions/think tanks and consultancy firms. The ministry of state for special programmes remained the lead actor coordinating and controlling the process. Intergovernmental and international non-governmental organizations were the majority of the non-state actors. Even though the groups of non-state actors could be likened to a policy subsystem. The study however presented a contextual gap as it focused on collective role played by the non-state actors in formulation of the disaster risk reduction policy while our study will focus on poverty reduction.

METHODOLOGY

The study adopted a desktop literature review method (desk study). This involved an in-depth review of studies related to role of intergovernmental organizations on poverty reduction. Three sorting stages were implemented on the subject under study in order to determine the viability of the subject for research. This is the first stage that comprised the initial identification of all articles that were based on role of intergovernmental organizations on poverty reduction. The search was done generally by searching the articles in the article title, abstract, keywords. A second search involved fully available publications on the subject role of intergovernmental organizations on poverty reduction. The third step involved the selection of fully accessible publications. Reduction of the literature to only fully accessible publications yielded specificity and allowed the researcher to focus on role of intergovernmental organizations on poverty reduction which was split into top key words. After an in- depth search into the top key words (role, intergovernmental, organizations, poverty, reduction), the researcher arrived at 5 articles that were suitable for analysis. This were findings from:

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SUMMARY, CONCLUSION AND RECOMMENDATIONS

Conclusion

The study concluded that fiscal decentralization has distributive effects. The effect of fiscal decentralization on poverty reduction outcomes and human developments depends on the nature and design of fiscal decentralization, the extent of fiscal decentralization and county specifics. Since fiscal decentralization is implemented in various forms such as intergovernmental transfers, own source revenue assignment and expenditure decentralization, the effects of each of these were analyzed. The conclusions from the findings are presented in the following paragraphs. From the findings related to intergovernmental transfers the study concludes that intergovernmental transfers increase poverty incidence at low levels below 18.42 per cent. Beyond 18.42 per cent intergovernmental transfers would reduce poverty headcount. In terms of poverty reduction outcomes, intergovernmental transfers increase overall school enrolment rates but does not have any significant effect on the proportion of underweight children below five years. There is also no effect on income inequality. However, on human development, intergovernmental transfers lead to improved human development at levels below 8.97 per cent after which the human development deteriorates with further increase in intergovernmental transfers.

Recommendations

It is recommended that it's most appropriate for national government to be in charge of administration of welfare and equity programmes. This is because intergovernmental transfers and

county expenditure were associated with increasing poverty and also have no effect on income inequality and health outcomes in the counties in Kenya. The administration of welfare and equity programmes such as cash transfer programmes, child nutrition, and maternal health care will be more beneficial if implemented and coordinated by the national government.

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