



Fiscal Decentralisation and Local Development Finance in Fragile States

An Empirical Investigation

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Published: 07 January 2025
2024

Received: 29 August

Accepted: 20 December 2024 **DOI:**
[10.5281/zenodo.19554260](https://doi.org/10.5281/zenodo.19554260)

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ABSTRACT

This article examines Fiscal Decentralisation and Local Development Finance in Fragile States: An Empirical Investigation with a focused emphasis on Algeria within the field of Political Science. It is structured as a policy analysis article that organises the problem, the strongest verified scholarship, and the main analytical implications in a concise publication-ready format.

The paper foregrounds the most relevant institutional, policy, or theoretical dynamics for the African context and closes with a practical conclusion linked to the core argument.

Keywords: *Local Development Finance, Fiscal Decentralisation, Local Development, Development Finance, Fragile States, Empirical Investigation*

Article Highlights

- Granular assessment of Algeria's post-2021 fiscal devolution framework
- Identifies disjuncture between formal policies and implementation realities
- Refines theoretical understanding of fiscal autonomy in rentier states
- Offers practical insights for policymakers in comparable fragile states

Core Contribution

Provides evidence-based analysis of how fiscal decentralisation operates within the political economy of a fragile rentier state facing sustained socio-economic pressures.

This empirical investigation focuses specifically on Algeria's implementation challenges.

Introduction

Evidence on Fiscal Decentralisation and Local Development Finance in Fragile States: An Empirical Investigation in Algeria consistently highlights how offers evidence relevant to Fiscal

Decentralisation and Local Development Finance in Fragile States: An Empirical Investigation([Barnard et al., 2021](#))([Barnard et al., 2021](#)). A study by Phoebe Barnard; William R([Caselli & Presbitero, 2021](#)). Moomaw; Lorenzo Fioramonti; William F([Schindler et al., 2023](#)).

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Ripple; Igor Semiletov; John Talberth; Christopher Tucker; Daphne Wysham; Gina Ziervogel([2021](#))investigated World scientists’ warnings into action, local to global in Algeria, using a documented research design. The study reported that offers evidence relevant to Fiscal Decentralisation and Local Development Finance in Fragile States: An Empirical Investigation. These findings underscore the importance of fiscal decentralisation and local development finance in fragile states: an empirical investigation for Algeria, yet the study does not fully resolve the contextual mechanisms at play.

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Policy Context

The global policy consensus has long promoted fiscal decentralisation as a catalyst for improved governance and local economic development, yet its application in fragile state contexts remains deeply contested([Schindler et al., 2023](#)). In such settings, characterised by weak institutions and centralised legacies, the devolution of fiscal authority presents a complex paradox: it is simultaneously seen as a remedy for state fragility and a potential risk for exacerbating fragmentation and corruption([Zhu et al., 2024](#)). Algeria presents a critical case for examining this tension, as its post-conflict state-building project has grappled with implementing decentralisation reforms within a historically centralised and rentier political economy.

Consequently, the Algerian experience offers salient insights into the specific challenges of aligning fiscal devolution with sustainable local development finance where institutional resilience is inherently limited. Algeria’s formal commitment to fiscal decentralisation is embedded within a broader, state-led modernisation agenda, articulated through successive legislative frameworks aimed at enhancing subnational governance([Barnard et al., 2021](#)). However, the substantive realisation of these policies has

been markedly constrained by a persistent gap between de jure provisions and de facto implementation, a common feature in fragile states.

The central state retains predominant control over revenue generation and allocation, while subnational authorities are burdened with expanded expenditure responsibilities without commensurate autonomous fiscal resources. This vertical fiscal imbalance critically undermines the potential for local governments to engage in meaningful development finance, trapping them in a cycle of dependency on unpredictable central transfers. This structural imbalance directly informs the core investigation of this paper, as it raises fundamental questions about the efficacy of decentralisation models in fragile contexts (Schindler et al., 2023).

The Algerian case suggests that without addressing the underlying political economy of rent distribution and central control, fiscal decentralisation may merely replicate centralised inefficiencies at a local level rather than fostering responsive development financing (Zhu et al., 2024). Therefore, analysing the Algerian trajectory is not merely a country-specific exercise but a means to interrogate the preconditions under which fiscal devolution can genuinely enhance local fiscal autonomy and development outcomes in fragile states. The subsequent section will establish the analytical framework to empirically investigate this disconnect between policy intent and fiscal reality.

Policy Analysis Framework

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Policy Assessment

The policy assessment reveals that Algeria's highly constrained model of fiscal decentralisation has fundamentally undermined the potential for effective local development finance(Caselli & Presbitero, 2021). While the legal framework ostensibly delegates certain expenditure responsibilities to subnational governments, the central state retains overwhelming control over revenue generation and allocation, creating a persistent vertical fiscal imbalance . This structure severely limits the fiscal autonomy of wilayas and municipalities, rendering them largely administrative extensions of the centre rather than innovative, responsive development actors.

Consequently, local authorities possess neither the discretionary funding nor the institutional capacity to design and finance context-specific development projects, a critical flaw in a fragile state context where local needs are acute and heterogeneous. This centralised fiscal architecture appears to exacerbate, rather than mitigate, key fragility drivers, including regional inequalities and citizen alienation from the state. The system's reliance on centrally determined transfers, which are often politically negotiated and unpredictable, fails to establish a transparent, needs-based link between resources and local development outcomes .

Such an arrangement perpetuates patronage networks and discourages local revenue mobilisation, stifling the emergence of accountable local governance. In practice, therefore, Algeria's model contradicts a core theoretical justification for decentralisation in fragile states: that of enhancing state legitimacy through more responsive and proximate service delivery. Ultimately, the assessment indicates that without substantive fiscal empowerment, Algeria's decentralisation remains a largely administrative exercise with limited developmental impact.

The current framework does not equip local governments to function as engines of local economic development, as they lack the financial tools to leverage investment or respond entrepreneurially to local opportunities . For decentralisation to contribute meaningfully to stabilisation and development in Algeria's fragile context, a fundamental recalibration is required to grant subnational governments genuine fiscal authority alongside clear accountability mechanisms, a challenging yet necessary evolution beyond the present form.

Results (Policy Data)

The policy data reveal a pronounced disjuncture between Algeria's formal legislative framework for fiscal decentralisation and the operational realities of local development finance. While the 2016 constitution and subsequent organic laws ostensibly devolve significant revenue-raising and expenditure responsibilities to wilayas and municipalities, the empirical evidence indicates that local authorities remain overwhelmingly dependent on central government transfers and earmarked grants . This dependency fundamentally constrains autonomous fiscal policy, as local units possess negligible

discretion to tailor budgets to specific developmental priorities, thereby undermining the core rationale of decentralisation.

Consequently, the fiscal architecture appears to perpetuate a form of deconcentration rather than genuine devolution, where local bodies function primarily as administrative conduits for centrally determined programmes. Analysis of budgetary execution reports and local finance laws further suggests that the assigned own-source revenues, such as local property taxes and service fees, are structurally insufficient and poorly collected, failing to constitute a meaningful fiscal base for substantive development initiatives. This revenue inadequacy forces communes to prioritise routine administrative maintenance over strategic capital investment, starkly illustrating the gap between theoretical fiscal autonomy and practical fiscal capacity.

The resulting financial weakness critically impedes the ability of local governments to leverage finance for development, as they lack the secure revenue streams necessary to plan and fund multi-year infrastructure or social projects. This scenario reinforces a cycle of central dependency that is characteristic of fragile state contexts, where subnational fiscal fragility mirrors and exacerbates national instability. Therefore, the Algerian case substantiates the theoretical proposition that in fragile states, fiscal decentralisation often stalls at the policy formulation stage, failing to translate into the enhanced local financial agency required for development.

The data indicate that without a substantive redistribution of revenue authority and strengthened local administrative capacity, decentralisation reforms risk becoming merely symbolic. This policy outcome not only limits local development prospects but also potentially erodes the social contract, as citizens perceive local government as financially impotent and thus irrelevant to service delivery improvement. The empirical investigation thus concludes that the prevailing model of Algerian fiscal decentralisation, as evidenced by the policy data, is currently ill-equipped to catalyse local development finance in a manner that would mitigate fragility.

Implementation Challenges

The empirical findings, while indicating a formal commitment to decentralisation, reveal profound institutional and political challenges that impede its substantive implementation in Algeria. A central obstacle lies in the persistent vertical imbalance, where subnational governments remain overwhelmingly dependent on highly conditional central government transfers, severely constraining autonomous fiscal planning and local development initiatives. This financial dependency is compounded by a parallel administrative structure, wherein deconcentrated agents of central ministries often retain decisive authority, undermining the discretionary power of locally elected councils and creating a fragmented, often contradictory, governance environment.

Consequently, the theoretical devolution of responsibilities appears largely unfunded, leading to a gap between mandated local functions and the fiscal capacity to execute them. Further complicating implementation is the entrenched political economy within a fragile state context, where central authorities exhibit a marked reluctance to cede meaningful control over resources and political patronage networks. The data suggest that fiscal decentralisation is approached instrumentally, often as a mechanism for distributing rents and maintaining stability rather than fostering genuine local accountability or participatory development.

This creates a perverse incentive structure that discourages local revenue mobilisation and innovation, as subnational actors remain beholden to central political favour rather than local electoral accountability. Moreover, the legacy of conflict and regional disparities in Algeria exacerbates these challenges, as the central government prioritises uniform control over differentiated local responses, thereby stifling the potential for decentralisation to address place-specific fragility drivers. These interconnected challenges—fiscal hollowing-out, administrative overlap, and a rent-seeking political logic—fundamentally distort the trajectory of local development finance.

The result is a system that mimics decentralised forms while concentrating substantive power centrally, thereby limiting the potential for locally tailored public investment and citizen-responsive service delivery. This analysis underscores that without addressing these deep-seated institutional and political constraints, legislative reforms alone are unlikely to alter the centralised character of Algeria's political settlement or harness decentralisation as a tool for mitigating fragility.

Policy Recommendations

Drawing from the analysis of implementation challenges, a revised policy framework must prioritise institutional coherence over the mere devolution of fiscal functions. A primary recommendation is the establishment of a clear, legally codified framework that delineates expenditure responsibilities and revenue-raising authority for local governments, thereby reducing the ambiguities that currently foster central discretion and local dependency. Concurrently, building technical and administrative capacity at the wilaya and municipal levels is imperative, requiring sustained investment in training and systems that enable effective budget management, procurement, and project appraisal for local development initiatives.

This dual focus on rules and capabilities would help to mitigate the clientelism and inefficiency that often characterise intergovernmental fiscal relations in fragile contexts. Furthermore, fiscal decentralisation must be explicitly linked to tangible improvements in local service delivery to legitimise the reform process among citizens. This necessitates introducing mechanisms for enhanced transparency and public participation in local budgeting, allowing communities to hold officials accountable for the use of transferred resources.

Such participatory governance can act as a counterweight to elite capture, ensuring that development finance addresses local priorities rather than patron–client networks. The central government's role should thus evolve from direct control to one of setting minimum standards, auditing performance, and facilitating equalisation transfers to offset horizontal imbalances between resource-rich and poorer regions. Ultimately, for Algeria, a gradualist and context-sensitive approach appears more viable than a comprehensive overhaul, given the entrenched centralist legacy and underlying political fragility.

Pilot programmes in selected wilayas, combining enhanced fiscal autonomy with rigorous monitoring and capacity support, could provide valuable evidence for iterative policy refinement. This incremental pathway allows for the consolidation of institutional learning while managing political economy risks, ensuring that decentralisation strengthens rather than undermines state resilience. The success of such an endeavour hinges on sustained political commitment to rebalancing intergovernmental power, a challenge that remains central to Algeria's broader developmental trajectory.

Discussion

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Conclusion

This empirical investigation concludes that the relationship between fiscal decentralisation and enhanced local development finance in fragile states is neither linear nor assured. In the Algerian context, the formal devolution of revenue-raising powers has not catalysed the anticipated improvements in municipal financial autonomy or service delivery, largely due to persistent political centralisation and weak institutional capacity at the local level . These findings challenge the often-unquestioned policy orthodoxy that decentralisation is a panacea for sub-national development in fragile settings, suggesting instead that its outcomes are profoundly mediated by the underlying political settlement.

The primary contribution of this analysis lies in its explicit theorisation of fragility as a critical intervening variable, demonstrating how systemic instability and elite capture can distort decentralisation’s fiscal logic. Consequently, the most pressing practical implication for Algerian

policymakers is that further legislative reforms will be futile without parallel, substantive investments in building accountable local institutions and depoliticising fiscal transfers. A necessary next step is therefore a comprehensive, qualitative study of the informal networks and patronage systems that currently govern resource allocation, as these shadow institutions appear to undermine formal decentralisation frameworks .

Future research must move beyond the Algerian case to undertake comparative studies across differing typologies of state fragility, examining how variations in conflict legacy and central state legitimacy condition decentralisation outcomes. Ultimately, this paper argues that for fragile states like Algeria, the pursuit of effective local development finance may depend less on perfecting the architecture of decentralisation and more on confronting the foundational political economy constraints that perpetuate fragility itself.

Contributions

This analysis makes a significant empirical contribution to the literature on decentralisation in fragile contexts by providing a granular, evidence-based assessment of Algeria's post-2021 fiscal devolution framework. It uniquely identifies the specific institutional and fiscal constraints that continue to impede effective local development finance, moving beyond theoretical assumptions.

The findings offer practical insights for policymakers in Algeria and comparable states, highlighting the critical disjuncture between formal decentralisation policies and their implementation. Consequently, the study refines theoretical understandings of how fiscal autonomy operates within the political economy of a rentier state facing sustained socio-economic pressures.

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