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STRENGTHENING LOCAL AUTHORITIES

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I. WHY STRENGTHEN LOCAL GOVERNMENT?

Local governments are weak throughout most of the developing world. They rarely have more than limited access to tax bases of their own but are fiscally dependent on transfers from national or provincial governments. They often lack a clear legal mandate regarding the role they should play in public service provision. In their staffing, local governments generally are bottom-heavy with unskilled workers but thin in professionals, reflecting the fact that many citizens look to government first as a source of employment rather than a cost-effective provider of services. Moreover, one of the main political correctives for weakness is missing. Since national political leaders rarely are recruited from the ranks of mayors or local politicians, local officials have little motivation to try to advance to national prominence by compiling a record of innovation and accomplishment at the local level.

Given this reality, it is not surprising that national development strategies--whether formulated by national planners or international development organizations--frequently contain proposals for "local government strengthening."

Rationale and Goals for Local Authority Strengthening

Not all weak institutions merit strengthening, of course. A number of different objectives have been set forth for local governments to rationalize why they should receive special attention, or to explain why their continued weakness will be an important obstacle to implementing national development strategies. The reasons most frequently advanced may be grouped into four broad categories:

Increasing the Efficiency of Public Service Delivery. Most developing countries have relied heavily on central government management for the delivery of basic services. However, the inefficiency of organizing local service delivery from the national capital and interposing layers of bureaucracy between the service user and the service deliverer has become evident. One common theme of efforts to strengthen local government has been to equip them to take over new service responsibilities devolved from central authorities. These responsibilities may include such functions as potable water supply, wastewater collection and disposal, road construction and maintenance, or, where more ambitious re-allocations of service responsibilities have been undertaken, primary and secondary schooling, and primary health care. Providing these services locally requires the creation of a specialized service delivery capacity, supported by capacity in revenue collection and budgeting.

Democratic Participation in Government. Local government provides a natural laboratory for democratic participation in government, at a level where citizens can observe more readily the linkage between voting, government programs, and service outcomes. The experience of exercising collective control over a government budget, and of debating and choosing between alternative tax and service bundles, is most effectively introduced at the local level. This experience can serve as preparation for more informed citizen participation in national politics. Moving toward this conception of local government often requires

fundamental political reforms. Accordingly, some local government strengthening initiatives have involved constitutional reforms expanding local governments' powers and the citizen-voter's role in local governance, or have sought to help implement recently enacted reforms of this type. Fundamental reform measures include direct, popular election of mayors and city council members, reductions of higher-level control over local government in favor of increased accountability to the electorate, and steps to expand local governments' discretionary powers in deciding local tax rates and public service levels.

Development Planning and Implementation. Some countries have looked to local governments to play a larger role in development planning. Traditionally, the multi-year plans utilized in Asia and Africa have been central government products involving no more than nominal consultation with local authorities. From them have flowed sectoral investment plans for different parts of the country, also prepared at the central level. Decentralized planning reforms have attempted to shift responsibility for local public investment planning to the local level, and have given emphasis to the integration of investment projects across sectors to meet locally defined development objectives. One of the most pronounced contrasts between local governments in Europe or the United States and local governments in developing countries is the general absence of economic planning capacity in the latter and the low priority assigned to using local government as a tool to stimulate local economic growth. A number of local government strengthening programs have sought to introduce local authorities to economic development planning.

Relief for Central Government Budgets. In the real world of practical politics and budget constraints, initiatives to strengthen local governments often have a further motivation. They are proposed as ways to relieve the pressure on central government budgets. Budget relief is expected to be accomplished by shifting service responsibilities or some of the costs of public investment to local authorities, or by increasing the capacity for revenue collection at the local level, which can justify a cutback in central-government fiscal assistance. The financial motivations of central government are not to be under-estimated. Almost all of the recent decentralization initiatives in South America, for example, have been formulated as proposals that would, in a reasonable period of time, reduce financial pressure on central-government budgets. The same goal of central government budget relief has figured prominently in Indonesia's program to create financially self-sufficient local water supply authorities, and in Eastern European nations' handing over of the publicly owned housing stock to municipal governments so that national budgets can be freed of housing subsidy obligations.

The Distinctive Strengths of Local Authorities

All of these objectives have a place in national development strategies. However, if local authority strengthening is to be an end in itself--rather than merely one possible instrument among many which central governments can select to implement a particular development program--there has to be agreement on the comparative advantage that local governments bring to the development process. Agreement on this score should shape the responsibilities assigned to local

authorities and help identify the kinds of local strengthening programs that deserve priority.

The fundamental strength of local authorities is their potential for citizen accountability. Citizens can participate in local public budget choices--i.e., choices about public spending levels, service priorities, and financing strategies--in ways that are not feasible at the central government level. Citizen oversight of public sector performance also is possible at the local level.

In economic terms, the greater potential for accountability makes local authorities appropriate vehicles for achieving both demand efficiency and production efficiency in the delivery of public services that have local benefits. Demand efficiency requires that governments produce the volume and type of services that taxpayer-consumers want and are willing to pay for. This results when citizens have mechanisms to express their willingness to pay and government fits the service packages it delivers to citizen demand, rather than have service choices dictated by central government or technocrats. Production efficiency requires that governments provide the mix of services that is selected at the lowest possible cost. Alternative incentive structures can be used to achieve production efficiency, but local governments can use voters and the community at large to oversee service performance.

The concept of accountability suggests a dual sense in which municipalities need to be "strengthened." The technical capacity to plan, budget, and actually deliver services must be strengthened. But probably more important in most cases, the responsibilities of local government must be clarified and redefined, so that local authorities have the discretion to make public resource choices of significance to local citizens and the potential for accountability is realized. Decentralization will be illusory as long as local governments have little decision-making authority. The potential for accountability will be frustrated if the institutions of local government are miniaturized versions of central government which insulate authorities from citizen demand. Even the technical capacity of local government is likely to remain lacking, or at least untapped, as long as local governments do not actually make decisions on their own, but have technical analysis performed for them, and decisions made on their behalf, by central authorities. There is a 'chicken and egg' dilemma here. Central authorities are reluctant to hand over service responsibilities because local governments lack technical capacity; local governments lack capacity, at least in part, because they have few significant functions to perform that require qualified personnel. Resolving this dilemma requires attacking both fronts at once: enhancing local technical capacity while broadening the scope of decisions that can be taken at the local level and substituting the concept of citizen accountability for vertical accountability to higher levels of government.

Unless local authorities are free to use their comparative advantage of identifying and responding to local service demands, there generally will be no reason for donors to single out local government strengthening as a strategic priority in assistance programs. For example, the goal of shifting expenditure

responsibilities to local governments in order to relieve central-government budgets, though sometimes endorsed by international organizations, is not worthy of donor program support on its own. Budget cutbacks at the central level ought to be made by weighing all potential expenditure reductions against one another. If certain service functions lend themselves to local variations in design and local adjustments in service supply in response to citizen demand, or can be more logically financed through locally raised taxes and user fees, real resource efficiencies can be achieved by their transfer from central to local authorities. Service transfers of this kind can be built into programs that strengthen the role and capacity of local government. Otherwise, the savings are likely to be illusory. Central government merely sheds or transfers a responsibility that other levels of government must pick up in the same form. Sometimes central government goes so far as to mandate the exact form in which the decentralized service must be provided. Only myopic preoccupation with the central-government budget can view this as a net fiscal gain.

II. POLICY INSTRUMENTS FOR STRENGTHENING LOCAL AUTHORITIES

A basic set of tools has been employed in efforts to strengthen local governments, especially in programs receiving international assistance. This section reviews the principal approaches, starting with those that have the most ambitious political agendas.

Fundamental Reforms in the Role of Local Government

The most sweeping strategy calls for legal reform (often, constitutional reform) to expand the role of local government and to strengthen local democratic control over local authorities. Almost always, reforms of this scale also assign major new sources of revenue to local governments to finance their increased expenditure responsibilities. These may take the form either of shared revenues from national tax collections or authorization to broaden the base of local revenue collection, or both.

Colombia illustrates one version of fundamental reform. Politically, the reform process began with the establishment of locally elected mayors. Fiscally, the revenue base of local governments was strengthened both in terms of their ability to raise revenues on their own and their sharing in centrally collected revenues. The value of local property tax bases was updated to compensate for past inflation, and provision made for future automatic adjustments to reflect price index changes. Although political resistance has kept the full goals of property tax base updating from being met, the erosion of taxable property values has been contained. For the first time, local governments were given discretion in setting property tax rates between limits of 4 and 12 mills. Fiscal decentralization was completed by raising the share of national value-added tax receipts automatically allocated to the local level from 30 percent in 1986 to 50 percent in 1992, a measure which was projected to generate US$950 million in annual additional revenue, mostly for cities under 100,000 in population. The changes in government structure were incorporated into a new national constitution.

In Colombia's case, the greater flexibility local governments now possess has been balanced by some important fiscal restrictions. All of the additional value-added tax revenues that local governments receive are supposed to be devoted to capital investment. A number of incentives have been introduced to induce local governments to give priority to investment in potable water supply, a service function which was transferred from central-level parastatals to local governments. Colombia's manner of implementing its reforms created obvious bottlenecks in the local government system. In some smaller communities, the resources available for investment were increased tenfold. Since few communities had the capacity to ensure that resources of this magnitude were translated into economically and socially sound projects, strategies for enhancing local planning capacity and the capacity for contract management had to accompany fiscal and political reform. Even so, many municipalities have been unable to spend all of the investment funds available to them.

In Chile, fundamental reform has proceeded in a different sequence. Under the military government the technical capacity of local government was greatly enhanced. The size of municipal work forces was reduced, while the technical and professional capacity of municipal employees was greatly increased. Local budget deficits, once the largest in Latin America, were erased. Responsibility for managing primary and secondary schools was turned over to municipal governments. But local governments had no political authority to respond to citizen demands. There were no municipal elections. All tax rates were prescribed by central government, with no possibility that local voters or local governments could choose to spend more through the local public sector. Local government borrowing was prohibited by national law. All of these provisions were designed to maintain a modestly scaled local public sector, which delivered efficiently the services that central authorities channeled through it. With national democratization has come the resolution to restore democratically elected mayors and expand local fiscal choice. However, the country faces the dilemma of how far to go in permitting local budget discretion, until it can find an accountability mechanism that effectively replaces the commands of a centralized military authority.

Poland's Local Self-Government Act of 1990 and subsequent decentralization proposals illustrate another potential conflict in restructuring the public sector. Local governments in Poland have been restored as formally independent authorities. Ambitious commitments have been made for expanding local government service responsibilities, including transfer to the local level of water supply and distribution (1992) and elementary schooling (1994). However, decentralization policy has been caught up in Poland's expanding central government budget deficit and the fear that it will trigger hyperinflation. One consequence has been increasing pressure to use decentralization as an instrument for cutting central government spending and reducing the total public sector deficit. In effect, this strategy presumes that it will be politically easier and fiscally more efficient for local governments to raise fees and taxes than for the central government to do so. For some services this strategy makes sense. Kindergartens and nursery schools, public transport, and public housing--the three largest

elements of local authority expenditure--all are suitable functions for greater cost recovery through locally imposed fees and charges, with public subsidies restricted to the poor. An efficient system of local service provision thus could reduce the need for central government transfer payments. However, this arrangement will require central government to relinquish the price controls it now imposes on these services; that is, to acknowledge that the services have in fact been transferred to local responsibility. Moreover, the same line of reasoning when applied to elementary schooling raises more fundamental issues. As long as the central government wants to maintain uniform national standards for schooling throughout the country, the transfer of schools to local authorities is for administrative purposes only. Such a transfer invites misunderstanding. In other countries where school administration has been transferred to the local level, local authorities eventually have been asked to bear part of school costs. They then want to exercise some discretion over the kind of schooling that is provided. In other words, the local desire to shape services to local priorities collides with the government's desire to use local authorities merely as a cost-effective supplier of national services.

The very different sequences in which fundamental reform can unfold ensure that the specific technical priorities for "strengthening" local governments at any point in time in a particular country will also be quite different. However, several basic themes recur across the countries involved in such reforms. These point to the type of strengthening that ought to be emphasized in donor assistance.

Substituting Citizen and Market Accountability for Higher-Level Government Supervision. Virtually all efforts at fundamental reform have been caught between the conviction that local authorities should enjoy more discretion in their revenue and spending decisions and the fear that local officials will abuse this discretion unless held closely accountable by higher levels of government. In most countries, the only type of fiscal accountability that has existed is accountability to central government agencies. A central government ministry (typically, the Ministry of Finance or the Ministry of Local Government) must review and approve local budgets. Central-government authorization is needed before local governments can borrow funds for capital investment. The tax rates that can be levied on local tax bases often are prescribed from the central level. The ex post audits of local government expenditures are conducted by central level agencies. In a majority of cases, most of these controls have been maintained even in the face of basic reforms designed to provide local governments with fiscal autonomy, simply because the countries have no alternative control mechanisms to draw on.

Donor programs designed to strengthen local governments in fundamental political and fiscal reforms ought to provide alternative models of accountability. Three alternatives are especially relevant. First, the municipal council ought to be prepared to perform budgetary oversight of the mayor and executive authority. This requires introduction of a budget process, in which an executive budget is prepared by the executive, submitted to council for approval or modification, then regularly monitored by the council. The council should hold the executive responsible for accounting for major deviations from the budget as approved. As matters currently

stand, the approved budget often disappears from view once the fiscal year is underway. In fact, in many countries local budgets are such unrealistic documents that they provide no conceivable basis for either managing local government or monitoring its performance. Establishment of a budget process and capacity for budget analysis within both the executive and legislative branches of local government, with the approved budget being used as an oversight tool by council, is crucial to ending budgetary dependence on central government.

Second, there should be better mechanisms for accountability to the electorate. The countries involved in municipal reform have made much more progress in introducing local elections than in establishing the principle that local governments are accountable to the electorate for their spending and policy decisions once in office. The regular publication of financial statements and budget comparisons is one tool of public accountability. These reports can be made readily available so that citizen groups, newspapers, or other interested parties can immediately discover how local government monies are being spent. Civic watchdog organizations also are valuable intermediaries in establishing public accountability. Technical assistance that strengthens internal budgeting procedures can be complemented by technical assistance that establishes or strengthens watchdog groups that help interpret the budget for the public.

The principle of accountability to the electorate requires that candidates run for office on policy platforms, and that voters take seriously candidates' plans for future municipal administration as well as the candidates' track records in delivering on past promises. The connection between local performance and voting support tends to disappear when local elections are held at the same time as national elections. Local voting then becomes an extension of the national campaign. Local elections turn into localized battlegrounds for expressing preferences regarding national-scale political issues or political ideology. In fact, in some electoral systems voters never have the opportunity to vote separately for national and local candidates; they merely vote for a party, which has a slate of candidates running at both the national and local levels. The party with the most local votes in the Presidential election takes over the city administration. National election laws, like the laws creating municipalities and defining their responsibilities, are filled with sometimes inadvertent impediments to accountability. While donors should not be in the business of drafting municipal legislation for reform-minded countries, they and associated international groups can serve as repositories for the lessons that have been learned from recent municipal reform efforts around the world. In this case, splitting off local elections from national elections has been found to be a critical ingredient in boosting local governments' sense of accountability to the local electorate.

Third, to lessen vertical dependence on central-government agencies there is a need to form horizontal associations among mayors and other city officials. These can provide standards of expected performance for individual municipalities. They serve as vehicles for spreading innovations and successful practices from one local government to another. Moreover, they are valuable institutions for international donors to work through. In their own search for administrative efficiency, donor

organizations run the risk of encouraging top-down intergovernmental arrangements. It is difficult to work individually with a large number of local governments. Some intermediary body usually is needed. If an association of municipalities or its equivalent is not available, there is a temptation to return to central government and try to reach large numbers of municipalities simultaneously through central-level grant programs, centrally provided technical assistance, or centrally organized credit programs.

In summary, when fundamental municipal reforms are underway, international donors that want to support the process should be ready to:

- ✔ help identify and train local authorities in alternate forms of accountability that do not run through central government
- ✔ monitor the bottlenecks that are developing both in service capacity and accountability mechanisms, and offer technical assistance that fills the gaps.

Redesigning Central Level Transfers to Local Government

As an alternative to comprehensive local reform of local governments' role, many national strengthening programs have opted to redesign the system of fiscal transfers to local government. The grant structure that these reforms seek to remove usually follows a common pattern. Discretionary grants to individual localities for individual projects typically account for the greatest share of the grants-in-aid budget. This arrangement strengthens the discretionary authority of central government. It also perpetuates the dependence of local authorities on central government. Local governments cannot count on stable or predictable central government transfers. Nor do grant amounts vary in a transparent manner that establishes effective incentives for desired local government behavior. In fact, an ad hoc grant system frequently involves perverse incentives. The biggest grants often go to the local authorities that have run up the biggest budget deficits and find themselves in the greatest financial trouble. Central government's use of deficit-filling grants tends to erode budget discipline throughout the local government system.

Grant reform strategies have fallen into two, seemingly opposed camps. One strategy seeks to greatly reduce intergovernmental transfers, while expanding local governments' ability to impose service fees and raise local taxes. Such an approach is consistent with the view that local authorities comparative advantage lies in providing services where user fees can be charged. The fee structure, if designed correctly, plays the same role as prices in a private market. It allows local governments to monitor service demand, to use pricing policy to ration scarce public sector resources, and to target investment in local service expansion to areas where experience show genuine excess demand to exist.

Although often advocated in principle, especially by donor agencies, this approach to local government strengthening almost never has been adopted in practice. Instead, it has been common to provide local governments taking on new responsibilities under decentralization programs with guaranteed sources of new revenue, such as constitutionally mandated sharing in national revenue collection.

This approach has been especially popular in Latin America where it has been adopted by Brazil, Colombia, Ecuador, Guatemala, Bolivia, Mexico, and other countries. Although such transfers tend to be more stable and more transparent than ad hoc central government grants, they do weaken the link between local spending and locally borne costs.

The effect of this strategy on local fiscal choice has been mixed. On the one hand, large revenue transfers, especially when first enacted, can obscure the budget constraint and discourage local revenue collection. This in turn can weaken the perceived need to take project prioritization seriously. In Guatemala, adoption of the constitutional requirement that 8% of all nationally collected revenues be allocated to local governments for capital investment resulted in a dramatic fall-off in local revenue generation. Some of the initial rounds of funding were spent on apparently low-priority projects or captured by contractors in artificially high prices.

On the other hand, revenue sharing on this scale creates a sudden opportunity to drastically revamp traditional local capital planning practices. Many more local projects become financially feasible. Mayors can be jolted into consulting with the populace about local investment priorities in ways that would not be imaginable if municipalities were dependent upon their own resources for financing. In fact, Guatemala's revenue sharing program represented a conscious gamble that the inevitable waste of resources in some localities was a price worth paying to be able to upset traditional planning and capital investment habits. The scale of funds available induced many mayors to hold their first forums with indigenous populations to discuss capital project priorities. Over time, as the revenue allocation came to be seen as a permanent entitlement, rather than a temporary windfall, it began to be taken more seriously as part of the budget constraint within which annual project choice was made.

Guatemala's experience, like Colombia's, points to one of the main areas where international donors can provide meaningful support for local government strengthening. When central government funding for local governments is raised by a large amount, the transfers almost always are tied to local expenditures for capital projects. This virtually guarantees that local capital planning, priority-setting, feasibility studies, and contract management will become major bottlenecks. Donors can anticipate this bottleneck, and be ready to assist in speeding up these processes, based on an understanding of what other countries have done in similar circumstances. One key issue that is sure to arise, for example, is how to mobilize (or create) a private engineering and economic consulting industry within the country.

Municipal Development Funds. One of the most frequent mechanisms used in local government strengthening programs that have international donor assistance is the municipal development fund (MDF). These funds are set up to use international resources, typically blended with domestic matching funds, to onlend to municipalities for financing capital investment projects. Where successful in getting funds out rapidly, the MDFs raise many of the same issues previously discussed with respect to planning bottlenecks.

The MDFs, however, betray more clearly the tension between program approaches that view local government strengthening primarily as a way to enhance local governments' control over their own resources and program approaches that see local government strengthening primarily as a means of increasing national investment efficiency, as judged by central authorities. In the latter vision, local authorities are useful implementers of national policy, but are not to be trusted to exercise their own discretion about investment priorities.

Municipal development funds in practice frequently have tilted toward a centralist orientation. They often impose very strict requirements for MDF appraisal of locally proposed projects. These go beyond assessing the creditworthiness of the local borrower, or the probability of loan repayment, to independently assess the economic worthwhileness and rate of return of each local project. In practice many MDFs initiate their own project proposals consistent with central government investment priorities, contract with consultants for technical project preparation and costing, and only at the end of the process inform the local government that it will be receiving a "loan" to finance the investment project. This use of credit is better characterized as mandatory local cost-sharing in government-initiated projects. Although MDF project design typically sets out to resolve this tension over time, by including training components to upgrade local governments' ability to identify and appraise projects on their own, very few MDFs have made the transition from centrally oriented lending operations to locally oriented ones.

General Technical Assistance

Technical assistance in urban management can be utilized by all types of local authorities. However, when technical assistance is part of a comprehensive program to strengthen the local government role, priority should be considered for skills that simultaneously can expand local authority.

Budgeting. A transparent budget that meaningfully relates local revenues to local expenditures is critical for any style of local management, but it is especially critical when the budget is to be shared with the public as an instrument of citizen control. Box 1 illustrates the kind of budgetary confusion that is commonly found at the local level. In fact, the municipal budget in most developing countries represents a lost opportunity for establishing control over municipal priorities. The same budgetary reforms that are necessary to make the budget comprehensible to civic groups, and to open public discussion of budget priorities, are necessary to give the mayor and his staff practical control over budget choices or to allow the municipal council to monitor compliance with the approved budget.

Planning. Central government planning traditionally has been connected to local planning through the sectoral investment plans of central government ministries. The ministry responsible for road construction or water distribution would draw up a regional investment plan, based partly upon input from the local level, and look to local collaboration in carrying out the investment projects specified in the plan.

Box 1

The Inscrutable Nature of Municipal Budgets

In Egypt, subnational administrative units prepare budgets that show projections of locally collected revenues and projections of non-salary expenditures. The difference between these two totals is presented to central government as the amount of financial assistance that is needed, to be added to central government payment of personnel. No comparison is made with previous year actual service costs, or with the additional revenues that could be generated by better tax and fee collection. The result is a budget jammed with perverse incentives (e.g., the bigger the projected local government deficit, the more central assistance can be requested). As a tool for overseeing local expenditures, the budget is even more limited. It is not uncommon, for example, for local primary schools to run out of basic supplies before mid-year.

In Honduras, local government budgets estimate revenues based on all the receipts to which the local authority is legally entitled, including all unpaid taxes and fees from previous years. Given the low rate of actual tax collections, this procedure results in actual revenue receipts that average 35 percent to 60 percent of the amounts shown in the "budget." Toward the end of each year, local authorities run out of money and are forced into pleading with the central government for emergency help or skipping salary payments. The system survives despite the requirement that all local governments submit their budgets for central government review and approval. In fact, central authorities apply their own rules of thumb as to what spending levels or receipts should be. Frequently, they make substantial adjustments in the local government budget without notifying local authorities, then return the "approved" budget as rewritten several months into the new fiscal year.

One of the most important urban planning reforms involves the integration of capital investment plans across sectors at the local level. For example, the Integrated Urban Infrastructure Development Plans that have been introduced in Indonesia produce coordinated packages of local public investment projects in roads, water supply, land development, and environmental facilities. These are prepared

locally, then submitted to the national planning authorities for approval and financing.

Integrated investment plans of this type create an opportunity for greater public involvement in the planning process. In Indonesia, for example, the IUIDP plans initially were focused exclusively on infrastructure service coverage for basic needs; they were prepared by technical personnel following government-promulgated guidelines. It was discovered that because the plans took no account of economic development linkages, large public infrastructure investments were being undertaken without regard to the requirements of industrial and commercial users or the impact upon local business costs. Attempts are now being made to involve the private business sector in the capital planning and budgeting process, by having business groups identify the principal infrastructure bottlenecks that hold back business expansion or add to costs. This approach applies to the concept of government accountability for resources decisions to the business sector.

Audits. Even the audit function permits expansion of the traditional conception of accountability. In a decentralized system of government, arm's length financial audits of local governments can be conducted by private sector firms, not only central government agencies. Donor technical assistance can help set up a private-sector accounting competency that reduces dependence upon central government in this respect.

Special opportunities exists for community auditing of service delivery. In Mexico, for example, the Solidaridad program brings water connections, street paving, and other improvements to poor urban neighborhoods. As part of the program, local community groups are assigned to monitor construction progress. They must approve each of the contractor's bills, representing stages of project completion, before a bill can be submitted to the government agency for payment. In this way costs have been held down through community verification of construction progress. More importantly, the community gains a sense of ownership of the project by acting as practical supervisor of the contractor's work.

III. ALTERNATIVES TO LOCAL GENERAL PURPOSE GOVERNMENTS

Up to this point we have considered programs to strengthen local, general-purpose governments. An alternative approach to local government strengthening is to encourage the creation of independent service-delivery organizations at the local level. Of course, these are not mutually exclusive options. The typical medium-sized or larger metropolitan area will have some services provided by city government and others provided by specialized authorities that are responsible either for particular service functions or for geographical areas that encompass the wider metropolitan region or specific neighborhoods within the city. One of the important decisions to make in designing an overall strategy for local government strengthening is what role these different institutions should play.

The Market as an Instrument of Accountability

General purpose governments capture taxpayer-voters' service preferences and willingness to pay indirectly through the voting process. In cases where the benefits from service provision are private (that is, there are no significant external benefits that go beyond the individual consumer), a more direct and potentially more efficient way of capturing consumer demand is through the market. A private firm can sell the services in question for a fee. Or, in cases where there is a strong public interest in service provision or a natural monopoly, an independent public authority can be established to sell the services. In either case, the efficiency advantages of market allocation depend upon being able to replicate the conditions of a competitive market, with full cost recovery of services that are produced with competitive costs.

In principle, the same service arrangements used by independent authorities could be carried out by general purpose governments. However, an independent authority may provide some protection against political pressures. A service supplier's costs are easier to identify when not commingled with other costs of government. Setting up a new authority with a business mandate may also mean that capital borrowing is taken more seriously.

Although they are designed to apply business principles to the government sector, local enterprise authorities frequently have become important drains on local fiscal resources, requiring large-scale transfers from the general purpose government to stay afloat. In Eastern Europe, for example, water and sewer systems, mass transit operations, and public housing authorities generally are set up as enterprise operations, and all lose money. In many developing countries, a wide array of functions, ranging from local markets and local slaughterhouses to public cemeteries and street cleaning, are set up as enterprise functions.

Strengthening the role of local authorities in this case means examining each of these functions to see which should be privatized or dropped altogether in favor of private markets. Many of the functions needlessly and inefficiently duplicate those offered by private firms. Local budget losses often can be reduced at same time market efficiency is enhanced simply by having local governments withdraw from service functions that are peripheral to their main role and can be provided by the private sector.

Collective Choice and Markets. For those functions that are appropriately provided by fee-charging public authorities, local government accountability often requires combining collective choice with market charges. For example, local water distribution systems may recover their operating costs and system-wide capital costs through their fee structure. However, service efficiency generally requires that communities be given a choice as to whether they want to have indoor piped water connections extended to them, given the cost of household installation, or would prefer less costly service alternatives, such as standpipes or outdoor connections.

This choice must be made by the community as a whole. It is not feasible to build a piped water distribution system that skips certain houses because the owners prefer the lower cost of standpipe supply. A collective choice must be made by majority vote or by decision of the neighborhood development association. It is the

combination of this collective choice about investment and market pricing of water provision to individual consumers that produces efficiency in service supply.

IV. CONCLUSIONS AND FRAMEWORK FOR DONOR ASSISTANCE

The conclusions to be drawn from this review of country experience are as follows:

1. The next generation of donor support for local government strengthening should give more attention to political factors. Institutions that support local choice-making and strengthen accountability mechanisms help realize the potential of local government as do national-level changes that give local government more responsibilities. Political factors may also play a greater role in deciding where assistance is to be provided. Countries that have made a commitment to enlarging the role of local government and strengthening democratic participation may be judged to be in the best position to use more narrowly focused technical assistance.

2. The goals of "local democratic governance" and "more effective and responsible delivery of local public services" are not incompatible. On the contrary, the challenge to both donors and host countries is to design programs that encourage democratic choice about significant aspects of service delivery, while equipping local authorities to take their budget constraints literally.

3. For most programs of local government strengthening, three types of donor assistance should be considered:

a. Capital programs that both meet local capital needs and help institutionalize citizen participation in local investment priority setting.

b. Policy reforms in central-local relations and inter-municipal relations. These may include legal measures to clarify and expand the role of local government where this has not already taken place; changes in central-local fiscal relations to provide stable, transparent fiscal support for local governments, while giving local governments at least some significant flexibility to tap local revenue sources for additional expenditures if they choose; and, strengthening of municipal associations and similar organizations so that they can support individual municipalities and lessen local dependence on central government.

c. Technical assistance to increase local governments' administrative skills, emphasizing those areas where improved internal management can be combined with better systems of public accountability. Some opportunities include help in preparing budgets and presenting budget choices to the citizenry; city council monitoring of the local budget; and both citizen and business participation in local capital budgeting. Too great an emphasis has been placed in past technical assistance on the internal administrative requirements of local government, and not enough on local authorities' interaction with the citizenry.

4. Given the high costs in resources and time of strengthening local government institutions, donors must look for ways to transmit successful

experience with individual authorities to the rest of the municipal universe. One promising option is to develop municipal associations or their equivalent. These build on the principle that the most effective learning often comes from peers rather than superiors in the institutional hierarchy.