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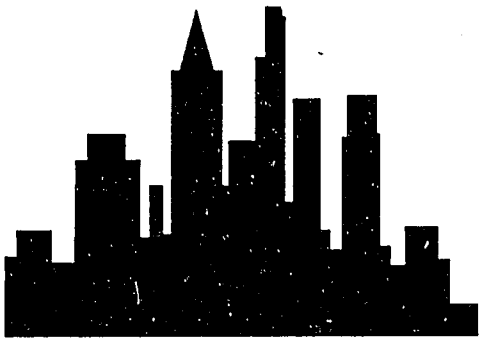
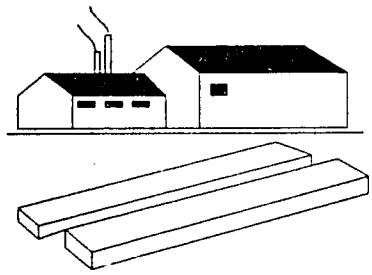
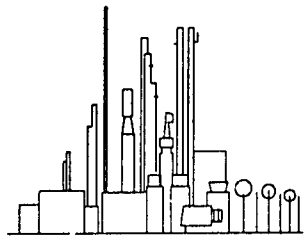
DECENTRALIZING URBAN DEVELOPMENT PROGRAMS: CONCEPTS AND GUIDELINES FOR ANALYSIS







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DECENTRALIZING URBAN DEVELOPMENT PROGRAMS:

CONCEPTS AND GUIDELINES FOR ANALYSIS

by

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PART I: CONCEPTS

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CHAPTER ONE

DECENTRALIZING URBAN DEVELOPMENT PROGRAMS

The rapid pace of urbanization in developing countries is creating new challenges for governments and international assistance organizations. In the short run, the greatest challenges for developing countries will be to satisfy the increasing demand for urban services and infrastructure that results from rapid urban population growth. In the long run, they must give greater attention to programs and policies for guiding urban development, for stimulating urban economic growth and employment opportunities, and for improving the efficiency of urban economies.

Governments have important functions in stimulating urban development and in improving the efficiency of urban economies:

- First, they provide basic physical infrastructure such as streets, water, sewerage, energy and utility systems, and essential services such as garbage collection, waste disposal and fire and police protection, that are essential to the efficient operation of cities.

- Second, they provide services such as education and public health programs that develop human resources, improve labor productivity and raise the standards of living for urban residents.

- Third, they regulate private activities that affect community welfare and the health and safety of the urban population.

- Finally, they provide services and facilities that support productive activities and allow private enterprises to operate efficiently in urban areas.

The demand for urban services and infrastructure in developing countries is growing steadily as urban populations increase and as cities come to play a greater role in national economic development. The provision and maintenance of urban services and infrastructure are crucial aspects of urban development, not only because they contribute to social welfare, but also because public services and facilities improve the capacity of cities to contribute to national production and trade.

Governments' ability to provide adequate urban services and infrastructure will become more crucial in promoting economic growth in the future. In much of the developing world, manufacturing, service, and commercial enterprises located in urban places now contribute more than half of gross domestic product (World Bank, 1987). In the future, continued economic growth and social progress will depend primarily on the efficiency with which a country's system of cities transforms resources in new ways to replace imports and generate exports over long periods of time (Jacobs, 1984). In turn, the

economic growth of cities will depend on the availability of urban services, facilities, and infrastructure that support urban enterprises.

The location of investments in services and infrastructure strongly influences the pattern of urbanization in developing countries and the pace and pattern of economic development within cities.

In most developing countries, however, urban services and infrastructure are provided primarily by central governments, many of which carry out urban development functions ineffectively and inefficiently (ADB, 1987). Some services are provided sporadically by informal sector and community organizations, many of which have insufficient resources to reach large numbers of people (Tendler, 1988). Local governments often lack the incentives, adequate funds, technical expertise, and management capacity to provide services and facilities efficiently. Moreover, the maintenance of physical infrastructure in developing countries is notoriously poor and, as a result, services and facilities deteriorate quickly (Tendler, 1979). For example, the World Bank reports that roads and highways it financed during the 1960s and 1970s are deteriorating so fast that many will be unusable before the borrowing countries can repay the loans for their construction (Roth, 1987a).

The problems of providing and maintaining urban services and infrastructure bring increasing calls for decentralization and privatization. Both national and local governments are now decentralizing financial and management responsibilities for urban development activities. (Rondinelli, Nellis and Cheema, 1983; Rondinelli, 1987; Rondinelli and Cheema, 1988).

But the questions of which urban development programs should be decentralized, how they should be financed, which organizational arrangements are most feasible and effective, and how decentralization policies can be better implemented remain open and in some countries hotly debated.

Part I of this report examines problems of trying to provide urban services and infrastructure through central government agencies and ministries. It explores concepts of decentralization and outlines the potential benefits and limitations of decentralizing urban service delivery, financing and management in developing countries.

Part II offers a framework for analyzing the political, economic and social dimensions of decentralization policies in developing countries. It discusses the characteristics of urban services and infrastructure and alternative financial and organizational arrangements for decentralizing urban development programs. It explores approaches to formulating intervention strategies and to designing decentralization programs and projects.

1.1 URBAN SERVICE AND INFRASTRUCTURE NEEDS IN DEVELOPING COUNTRIES

The rapid pace of urbanization in developing countries greatly increases demands for shelter, infrastructure, employment opportunities and social services in cities. The expanding role of cities in national economic development requires them to have adequate infrastructure and services to support the manufacturing and commercial enterprises that are the foundation of their economies. Thus, the efficient and effective provision of urban services (including basic health, safety and welfare, transportation, public planning, land use and building regulation, and economic development services) and physical infrastructure are among the most important functions that national and local governments perform in the urban development process.

The growing need for urban services and infrastructure in cities of developing countries arises from four major trends:

- rapid growth of the urban population;
- rapid transformation of the economies of many developing countries from agriculture to urban manufacturing, services and commerce;
- the shifting incidence of poverty and the rising concentration of poor households in cities; and
- the growing numbers of externalities associated with urban economic activities and high population density in cities.

An enormous number of people will be added to the populations of cities and towns in developing countries during the last decade of this century. Cities in developing countries are expected to grow by about 51 million people a year--or about 140,000 persons a day--for the next 40 years (UNCHS, 1987). Although in 1950 only about 275 million people were living in urban settlements in less developed countries, the number more than doubled to 673 million by 1970. It increased to about 966 million in 1980, and is expected to more than double again to 1.9 billion by the end of the 1990s. The net addition to the urban population in developing countries between 1980 and 2000 will be about as large as the total population of urban places in more developed countries today at the end of the century, the less developed countries will have twice as many people living in urban places as the richer countries.

- In Africa, the population of urban settlements will increase from 129 million to about 340 million.
- In South Asia, urban population will increase by 111 percent between 1980 and the year 2000, in South America, East Asia, Central America and the Caribbean it will increase by more than 45 percent.

- More than 1.1 billion people will be living in urban settlements in the less developed countries of East and South Asia alone by the turn of the century.

As the populations of cities and towns in developing countries continue to grow, they are placing increasing strains on existing services, facilities, infrastructure and shelter, and on the capacity of urban enterprises to create sufficient numbers of jobs. Rapid urbanization also strains the ability of governments to meet demand for new urban services and infrastructure needed to sustain economic growth and improve living conditions.

The World Health Organization estimates that from one quarter to one half of the urban population in developing countries do not have basic water and sewerage services. About 25 to 30 percent of the urban population in Latin America, Africa, and the Middle East lack access to potable water, as do more than one-third of urban dwellers in Asia and the Caribbean. The percentage of urban population that lacks access to sanitation systems is even greater. About two-thirds of the urban dwellers in West Africa lack basic sanitation services, as do more than half in Asia, Central America, Latin America, North Africa and the Middle East (USAID, 1983).

Along with rapid urban population growth, the shifting incidence of poverty from rural to urban areas is also generating strong demand for urban services and facilities. By the end of this century, more than half of the households living in absolute poverty in developing countries will be concentrated in urban areas. The World Bank (1980) estimates that by the end of the 1990s, 90 percent of the absolute poor in Latin America and the Caribbean will be living in cities. So will about 40 percent of the poorest in Africa and 45 percent of those in Asia. The number of urban households living in poverty is expected to increase by 121 percent from the 1975 level of 33.5 million to about 74.3 million at the end of the century.

The process of urban economic development itself creates new demands for services and infrastructure to facilitate population concentration and high density living, and to deal with the adverse physical and social consequences of some urban economic activities. Industrial development in cities, for example, can adversely affect air and water quality and the health of the urban population. Left unchecked these problems eventually lower the productivity of the urban labor force and create inefficiencies in of urban economies.

1.2 PROBLEMS OF CENTRALIZED FINANCE AND MANAGEMENT OF URBAN DEVELOPMENT

In many developing countries the provision, financing and maintenance of urban services and infrastructure are primarily the responsibility of the national government. In most Asian and African countries, local administration is simply a field unit of the national government and depends heavily on it for

financial resources (Cheema and Rondinelli, 1983; Mawhood, 1983). In Indonesia, for example, the central government traditionally has played the dominant role in providing public services. The ministries of Public Works, Home Affairs, and Health provide many of the services and facilities in urban areas. Urban traffic control and public transport are the responsibility of the Ministry of Communications, and the National Electricity Corporation provides street lighting (Hamer et al., 1986). Even in Latin America, where municipalities and local governments are legally separate entities, much of the investment in urban services and physical infrastructure comes from central government ministries, public corporations and centrally-funded public foundations (Harris, 1983).

1.2.1 Ineffectiveness of Central Government Service Provision

But for a variety of reasons, central government ministries and agencies in most developing countries are poorly organized to extend urban services to local communities (Ayubi, 1982; Rondinelli and Mandell, 1981; 1981a). Their financial, administrative and organizational problems vary in severity, and governments differ in their capacities to deal with them. The following criticisms are most often raised:

- Most central governments are primarily concerned with managing macro-economic policies and with maintaining national political stability. They are often less concerned with urban service provision except to the extent that it involves large-scale, capital-intensive investments.

- Rarely do incentives exist for central government ministries to perceive citizens as their clientele. Consequently, they do not define their major functions as satisfying citizens' needs and demands. Ministries of public works, human settlements and urban development, even in predominantly urban countries, are largely unresponsive to the needs of their constituents.

- Central ministries are usually staffed with technicians and professionals who are more concerned with the glamorous and professionally satisfying tasks of constructing large-scale, capital intensive projects rather than with routine aspects of service delivery and maintenance (Tendler, 1979; Johnson et al., 1986).

- Central ministries often provide network-based services, facilities and infrastructure that are more elaborate and technologically advanced than the cities need, and tend to choose new and modern technologies that are expensive to maintain (Tendler, 1979).

Weak administrative capacity limits the central government's ability to improve urban service delivery in many developing countries, even if larger amounts of financial resources become available (Rondinelli and Mandell,

1981). Among the most serious administrative problems are overcentralization of planning and decision-making in national ministries, weak planning and managerial capability at all levels of administration, difficulties in coordinating service delivery among national ministries and between central government agencies and local governments, ineffective managerial and supervisory practices in the field, and severe shortages of trained personnel.

1.2.2 Dissatisfaction with Central Government Provision of Urban Services

Dissatisfaction with central government control of urban development is becoming more widespread. In assessments of the results of Indonesia's national development plans--which prescribed standard urban investment priorities for all cities in the country--government officials themselves admit that "this sectoral and centralized approach did not meet local needs in a balanced way. Emphasis was given to water supply, for example, even where drainage or solid waste management required more urgent attention. The consequent imbalance in development led to later problems with financing the operation and maintenance of unnecessary and unwanted services and to difficulties in financing further, more important developments" (Padmopranato, 1987).

In South Korea, where central government investments in infrastructure have had a strong influence on the pattern of urbanization, observers argue that although public corporations provided housing and some types of physical infrastructure efficiently, "they lack sensitivity to local needs and priorities since they operate on standard procedures formulated for the whole country. Since their activities are based on special laws with their own planning criteria and procedures, their projects may conflict with the balanced development of a whole city" (Choi, 1987: 512).

Municipal officials in Panama point out that the Ministry of Public Works, which has sole responsibility for the construction and maintenance of urban roads and streets, places far higher priority on new road construction than on operation and maintenance. Often the Ministry constructs streets and highways, but will neither repair nor resurface them for long periods of time. Moreover, central ministries rarely coordinate their activities in Panama's cities. Municipal officials complain that the national agencies responsible for extending electricity and telephone facilities dig up city streets, but neither they nor the Ministry of Public Works respond to requests to repair the roads (Johnson, et al., 1986).

1.2.3 Economic Inefficiencies in Central Government Service Provision

Other problems arise from the way in which centrally-provided urban services are perceived by users. Nearly everywhere, citizens perceive urban services and infrastructure provided by central governments as free public goods to which they are entitled, rather than as resources that they should be providing for themselves or for which they should pay. Thus, user charges and

other forms of beneficiary payment are unpopular. They are hard to enforce and easy to relax when the central government treasury can subsidize the cost.

In many developing countries, price rationing does not relate the supply of a service to real demand. In studies of urban water provision in Central America, Peterson and his associates (1986: 13) found that water authorities resisted the principle of economic pricing, a necessary condition for raising the capital to expand services to poor neighborhoods. Government officials "continue to view water services as a right that households should enjoy without capital cost," they observed. "Only in large new developments--where the developer is made to bear the cost of water supply and incorporates the cost into the price of housing--has the principle of pricing based on incremental cost recovery been accepted." As a result, some services are provided at quantities or qualities that exceed real demand as measured by willingness to pay. Or the real willingness to pay is underestimated. In either case, scarce central government resources are drained off from other uses to support local services that could be paid for locally. When exports of oil and other primary products produced large annual increases in central government revenues, this problem was usually ignored. However, in most developing countries central government revenues from these sources are now declining.

Heavy borrowing during the 1970s and the economic recessions of the early 1980s, left central governments in most developing countries with little capital for investing in new infrastructure or for expanding services in cities. In the decade from the mid-1970s to the mid-1980s the indebtedness of developing countries increased from $140 billion to almost $700 billion. The ratio of interest payments and amortization to exports (debt-service ratio) for developing countries doubled during the period (UNCHS, 1987).

The world economic recession of the late 1970s and early 1980s also played an important role in increasing the interest of governments in developing countries in decentralizing urban development programs. The recession, Mahwood (1987: 21) points out, "moved many Third World regimes--especially those of Africa and Latin America--from a position where they had a supply of relatively free resources to spend as they chose to a position of extreme shortage. ... In the 1980s they are hard-pressed even to keep their own machinery of government running, and have no development resources to distribute." During the recession, many governments shifted their policy from making new investments to using existing resources more efficiently.

1.2.4 Weakening of Local Capacities for Urban Service Provision

The dominance of central governments in urban development, however, greatly weakened the capacity of local governments to raise adequate revenues to provide urban services and infrastructure. National governments in most developing countries appropriated to themselves the most lucrative sources of public revenue, leaving local governments only with those taxes and fees that

yield the least revenues or that are the most difficult to collect. The legal status of local governments as agents of the central government, with little authority or taxing ability of their own, left them highly dependent on central government financial transfers and grants-in-aid. In countries like Korea, the Philippines, India and Taiwan, where local governments account for a substantial percentage of general government expenditures, much of the money goes for administration (Friedman, 1983; Mathur, 1983; Prakash, 1988).

Even in the newly industrializing countries only the largest cities have significant revenue raising capacity. Smaller towns and municipalities receive much of their revenue from proceeds of indirect taxes levied by the central government. The ability of local governments in secondary cities and towns to finance services has been inhibited by the central government's constraints on their borrowing powers. In most developing countries, only the largest cities have borrowing authority and smaller municipalities and secondary cities are unable to obtain long-term financing through bonds or securities. National governments have imposed tight constraints on local borrowing. In any case, weaknesses in local revenue bases make local government securities unattractive investments in any case (Prakash, 1988).

Thus, the capacity of local governments to provide adequate services and infrastructure to promote urban economic development depends on their ability to improve tax collection and revenue administration.

1.2.5 Reassessment of Central Government Role in Urban Development

The monopoly of central government agencies over urban service and infrastructure provision, the rising costs of providing adequate services and effective maintenance, and tight financial constraints have all combined in recent years to restrict severely the ability of central governments in most developing countries to meet the growing needs for urban services and infrastructure in the future (Cheema and Rondinelli, 1983).

With the growing concern over national debt crises and the need to curtail total public sector obligations, the role of the central government in providing urban services--and even of the system of central government transfers to local authorities--have come under closer scrutiny. In several countries pursuing decentralization programs, such as Thailand (Johnson et al., 1987), Colombia (Johnson, 1985), Mexico, and Nepal (McCullough, 1986), the central government's main motivation has been to reduce the financial burden on the central treasury. Ecuador, Indonesia, Mexico, Malaysia and Nigeria--all faced with declining oil revenues--are attempting to reduce the financial obligations of the central government to provide local services (Hicks et al., 1983; Berry, 1985; Maaruf, 1987).

Central governments are increasingly using transfers to induce local governments to raise more resources for themselves and to control local expenditures. This approach is being used in the Calcutta region of India (Banerjee, 1986); is now being introduced in Nepal (McCullough et al., 1986);

and has been proposed, but not implemented in the Philippines (Bahl et al, 1981; Ragragio, 1987). In Indonesia, the national plan (Repelita IV) calls for a three-part strategy for improving the provision of urban services and infrastructure: 1) increasing resource mobilization at all levels but in particular improving local government capabilities to finance their required investments; 2) expanding and intensifying programs of manpower training related to urban needs, with special attention to urban systems management; and 3) improving the effectiveness of urban investment planning, programming and delivery systems (Padmopranoto, 1987).

Both national and municipal governments are beginning to use the private sector to deliver public services. They are contracting out some parts of service provision or privatizing entire service agencies.

CHAPTER TWO

CONCEPTS OF DECENTRALIZATION

Decentralization embraces a variety of concepts, the feasibility of which must be analyzed carefully in any particular country before governments reorganize urban development programs. It is important to distinguish among different types of decentralization because they have different characteristics and different policy implications. Distinctions should be made among political, spatial, administrative and market decentralization.

2.1 POLITICAL DECENTRALIZATION

Political decentralization gives more political power for decision-making to citizens or their elected representatives. Political decentralization is usually associated with representative government, citizen participation, and democratization.

Decentralization is frequently associated with democratization because it allows citizens, or their representatives, to influence policies more effectively than if all decisions were made by a small political elite or only by national political authorities. Political decentralization implies the selection of representatives from local electoral jurisdictions. Selection of officials from small jurisdictions allows citizens to know better their political representatives and allows local representatives to know better the needs and desires of their constituents.

But decentralization of administration in developing countries does <u>not</u> necessarily imply either expanded political participation or democratization. Indeed, in some authoritarian societies central political control is often maintained through administrative deconcentration. Either the ruling political party or the central government structure is deconcentrated to gather information, monitor behavior, and control activities more effectively.

Decentralization can lead to democratization and greater political participation if political power as well as administrative decision-making authority are dispersed more widely throughout society. But the concepts of administrative and political decentralization are not the same.

2.2 SPATIAL DECENTRALIZATION

Spatial decentralization is a process of diffusing urban population and economic activities geographically among settlements of different sizes to prevent or reverse high levels of concentration in one or two large metropolitan areas. Governments usually attempt to promote spatial

decentralization by distributing central government investments in services, facilities, infrastructure and other resources in a way that will strengthen the economies of secondary cities and small towns. Most spatial decentralization policies seek a more "balanced" pattern of urban development. They aim at building the capacities of public and private organizations in secondary cities and towns to raise their own revenues to acquire the services, facilities, and productive activities needed for economic development (Rondinelli and Ruddle, 1978).

Spatial decentralization is an important strategy for promoting widespread economic growth (Rondinelli, 1983a). When they have adequate services, facilities and infrastructure--secondary cities and small towns can play important roles in rural, regional, and national development:

- Many secondary cities and towns are administrative centers. They are convenient locations for national, regional and local government offices and for public services used by urban residents and people from surrounding rural areas.

- Many towns can accommodate a variety of commercial and financial services, retail shops, recreational activities, and social and religious functions.

- Secondary cities are usually important agricultural market centers offering a wide variety of agricultural and consumer goods. They provide collection, transfer, storage, brokerage, credit and financial services needed by farmers.

- Even small towns can have sufficiently large populations and the locational advantages to foster the growth of small- and medium-scale manufacturing and artisan and cottage industries. These enterprises satisfy demand for low-cost manufactured goods.

- The growth of secondary cities and towns increases demand for food and agricultural products from rural areas. Thus, the growth of these urban places can be an important stimulus for increasing food production.

- Many secondary cities and towns are agroprocessing centers and sources of agricultural inputs such as fertilizers, improved seeds, irrigation equipment, and cultivation tools.

- Most secondary cities and towns are also major sources of off-farm employment. They provide jobs for urban dwellers and supplementary income for rural people.

- Finally, intermediate towns and cities are usually centers of transportation and communications. They physically link people in rural areas with the services, facilities, and employment opportunities found in larger urban areas.

Of course, not all secondary cities and towns perform all of these functions, and many do not perform them well. The objective of spatial decentralization policies is to distribute investments in urban services, facilities and infrastructure that support productive economic activities more widely among cities and towns, and to strengthen local administrative capacity to raise revenues and maintain services and facilities more effectively.

Although they differ conceptually and in their policy implications, spatial and administrative decentralization can and should reinforce each other. As more cities and towns grow in population and diversify economically, it becomes more difficult and costly for the central government to provide local services and infrastructure. The need for effective local governments increases as the urban system of a country becomes more complex. Spatial decentralization creates the need for administrative decentralization, and administrative decentralization can be an instrument for promoting spatial decentralization. Often, however, policies focus on one and ignore the other.

2.3 ADMINISTRATIVE DECENTRALIZATION

Administrative decentralization can be defined as "the transfer of responsibility for planning, management, and the raising and allocation of resources from the central government and its agencies to field units of government agencies, subordinate units or levels of government, semi-autonomous public authorities or corporations, area-wide, regional or functional authorities, or non-governmental private or voluntary organizations" (Rondinelli and Nellis, 1986: 5).

There are three major forms of administrative decentralization--deconcentration, delegation, and devolution--each with different characteristics.

2.3.1 Deconcentration

Deconcentration--the weakest form of decentralization--is the redistribution of decision-making authority and financial and management responsibilities for providing urban services and infrastructure among different levels within the central government. It can merely take the form of shifting work from central government officials in the capital city to those working in regions, provinces or districts. But deconcentration also occurs when central ministries create field offices to extend or carry out their work at the local level, or when national governments create local units of administration. Deconcentration is usually the first cautious step toward decentralization that most highly centralized governments take.

1. Field administration. Most central government ministries deconcentrate their operations through field administration. For example, although the provision of almost all urban services and infrastructure is under the control of central government ministries in Indonesia, most have field offices in the provinces and sub-branches in the larger cities and towns. The provincial and local offices of the central ministries are responsible for implementing government development projects and programs (Hamer, et al., 1986).

As opposed to merely shifting workloads from central government offices in the capital city to those in other locations, a system of field administration implies the transfer of some decision-making authority to field staff, allowing them some latitude to plan, make routine decisions and adjust the implementation of central directives to local conditions, within guidelines set by central ministries. Under a system of field administration, even though government officers are working within local jurisdictions that may have semi-autonomous or delegated powers, field staff are employees of a central ministry and remain under its direction and control.

2. Local Administration. Local administration is a form of deconcentration in which subordinate levels of government are agents of the central authority, usually the executive branch. District councils and commissions in Kenya, Botswana, and Lesotho are examples of local administration. In many Asian countries regions, provinces, metropolitan authorities, municipalities and other units of government are headed by leaders who are either appointed by or are responsible directly to a central government agency, usually a Ministry of Interior or Local Government. Local functions are performed under the technical supervision and control of central ministries. Local administrations may either be integrated, wherein ministry officials and local officers work under the supervision of the local executive, or unintegrated, wherein field staff of central ministries and administrative staff of local jurisdictions work independently of each other and are supervised by different ministries.

The degree of decentralization that is achieved by deconcentration depends on a number of variables. A greater degree of decentralization is achieved by deconcentration when (Smith, 1979):

- there are more levels in the hierarchy of the agency or ministry in which deconcentration occurs;
- larger numbers of responsibilities are assigned to field officers or local representatives;
- mechanisms of coordination and control over the activities of field personnel are not controlled by a single unit or director;
- field officers are not required to refer most matters to central headquarters for decision;

- personnel are rotated between headquarters and local units of administration;
- field officials are heavily involved in policy and program planning and providing information and advice to headquarters; and,
- monitoring and control depend more on reporting than inspection or advance review.

In highly centralized governments, deconcentration can be a means of improving the efficiency and responsiveness of central government agencies that provide urban services and infrastructure.

2.3.2 Delegation

Delegation is a more extensive form of decentralization. Through delegation, central ministries transfer responsibility for decision-making and administration to semi-autonomous organizations not wholly controlled by the central government, but ultimately accountable to it.

Governments delegate responsibilities when they create public enterprises or corporations, housing authorities, transportation authorities, special service districts, regional development corporations, or special project implementation units. Usually these organizations are exempt from many of the constraints on civil service personnel. They may be able to charge for their services and may operate like private corporations, using business practices and procedures.

Governments in many developing countries delegate functions to public enterprises and special authorities in order to overcome the limitations of public bureaucracies. The number of state owned enterprises in some developing countries is now enormous. Mexico has more than 500, Brazil more than 400, Tanzania nearly 400, Pakistan and India have about 200 each, and Sri Lanka has more than 100 (Shirley, 1983). These public enterprises engage in a wide range of activities from manufacturing to the provision of urban services and facilities.

Often the organizations to which public functions are delegated have semi-independent authority to perform their responsibilities. Delegation gives authority to plan and implement decisions concerning specific activities--or a variety of activities within local jurisdictions--to semi-autonomous public or private organizations with technical and administrative capacity to carry them out (Rondinelli, 1979, 1981).

In Mexico and Brazil, urban development projects in housing, social services, public works and public transportation are undertaken by municipal foundations (fundaciones municipales). They are separate entities from the municipal governments and obtain financial assistance from the central government (Harris, 1983).

Almost all Asian countries, and especially, India, Pakistan, Thailand and Malaysia, also provide urban services through public corporations and authorities that are outside of the regular central government bureaucracy. Some have semi-autonomous revenue raising powers. They can charge users to finance the extension and maintenance of services. Public enterprises provide electricity, piped water, sewerage, and other utilities. Authorities also provide a combination of services to designated geographical regions or rural districts. In the Philippines, India and Malaysia, for instance, river basin development, land resettlement and area development authorities have responsibility for delivering selected local services within their designated boundaries.

In Thailand, state enterprises provide energy, utilities, transportation and communication services to cities and towns (Pakkasem, 1985). State enterprises in Thailand, following a common pattern in Asia, "have their own separate legal identity and are separate accounting entities, which are expected to cover their costs from revenues. They are, however, less directly controlled by the government than government agencies and departments, yet remain under greater government control and intervention than private firms" (Pakkasem, 1985: 237). Public enterprises in South Korea also play a strong role in supplying urban services and infrastructure, including much of the electricity, water and sanitation services. Most are large firms created to operate in monopolistic or oligopolistic markets (Koo, 1985).

Governments in developing countries create state owned enterprises or public corporations to provide public services and facilities for a variety of reasons: to control natural monopolies, to ensure adequate service provision throughout the country; to obtain more efficient services than can be provided by central bureaucracies; to assure national control over a politically important basic service; and to provide a mechanism for expanding services requiring large "lumpy" capital investments (Shirley, 1983).

2.3.3 Devolution

Devolution is a third type of administrative decentralization. When governments devolve functions, they transfer authority for decision-making to autonomous units of local government with corporate status. Devolution transfers responsibilities for services to municipalities that elect their own mayors and councils, raise their own revenues, and have independent authority to make investment decisions Sherwood, 1969). These characteristics distinguish local government from local administration.

Brazil, adopted a federal system in the 1940s that established local governments (municipios) with elected mayors and councilors. Municipios have their own administrative units and the power to collect taxes, levy charges, disburse funds and deliver local public services. Except for a few functions reserved for federal and state governments, municipios in Brazil have discretion to provide a wide range of services. Local governments are responsible for raising local revenues from property taxes, licences, public amusements and services provided by the municipal government. In addition,

they receive revenues generated by vehicle license fees and by state taxes on industries and professions and a percentage of the federal excise, income, fuel and electrical energy taxes (Olowu, 1982). Brazilian local governments can adopt their own tax codes, personnel laws, and classification and salary plans. They can adopt regulations for urban development, exercise eminent domain and condemnation, and establish public enterprises and foundations to deliver services (deMello, 1982).

Nigeria has also devolved responsibility for local services. In 1976, the Nigerian government established local governments with elected councils as the third-tier in a federal system. States were given the authority to create local governments within Federal regulations. Government guidelines gave local governments "substantial control over local affairs as well as staff and institutional and financial powers to initiate and direct the provision of services and to determine and implement projects so as to complement the activities of the State and Federal Government in their areas, and to ensure, through devolution of functions to these councils and through the active participation of the people and their traditional institutions, that local initiative and response to local needs and conditions are maximized" (Federal Republic of Nigeria, 1976: Para. 3). Responsibility for specific services were devolved on the basis of three criteria: those requiring detailed local knowledge for efficient performance; those requiring community responsiveness and participation; and those of a personal nature that need to be tailored to local and individual needs. Local governments were given exclusive control over markets, motor vehicle parks, sanitary inspection and waste disposal, licensing and supervision of food preparation enterprises, regulation and licensing of many community activities, and collection of property taxes and other local rates. Moreover, they received shared responsibility for health, educational, fire, water supply, public housing, and sewerage systems, and for public utilities and transportation services (Gboyega, 1983).

Local governments are financed from a transfer of 10 percent of national revenues, which are distributed through the States, and from an additional 10 percent of State government revenue. Local governments also have the authority to raise their own revenues from community taxes, licensing fees, permits, property taxes, interest on investments, service fees and property leasing.

Since devolution was initiated in Nigeria in 1976, serious problems have arisen with implementing the local government system. Economic reverses further limited the ability of national and state governments to transfer financial resources. But local governments are now responsible for a wide range of local functions in Nigeria.

2.4 PRIVATIZATION AND MARKET DECENTRALIZATION

Market decentralization is a process of creating conditions in which goods and services are provided primarily through the revealed preferences of individuals by market mechanisms. This is usually accomplished by policies of "economic liberalization." Through such policies, governments allow private enterprises to provide goods and services previously provided only by the public sector; deregulate the private sector by relaxing or abolishing controls over private provision of public goods and services; or offer incentives to expand private sector participation in providing public goods and services.

Many economists contend that under conditions of reasonably free choice, some public goods are provided more economically and efficiently when a large number of local institutions are involved than when only government is the provider (Ostrom, Tiebout and Warren, 1961; Buchanan and Tullock, 1962). A large number of providers offer citizens more options and choices. These options can be packaged as different "market baskets" of goods and services that meet the needs of different groups of users. In more advanced economies, people can select among towns or neighborhoods providing different combinations of services and facilities by moving to communities with the combination they desire (Tiebout, 1956; Olson, 1965; Ostrom and Ostrom, 1977).

Market decentralization creates conditions allowing relatively free operation of market mechanisms. These conditions allow consumers to act in economically rational ways to maximize their individual welfare. They allow market mechanisms to operate effectively by providing the opportunities for large numbers of institutions to provide public goods and services competitively. Under conditions of market decentralization, private firms are free from unnecessary constraints or inhibitions of public regulations and legal constraints. Economic institutions serve as channels through which people can express their preferences for goods and services. Individuals and firms have the maximum degree of physical, social and economic mobility to move to communities where the desired "market baskets" of goods and services are provided. People can increase their incomes and retain a sufficient amount to purchase the goods and services they desire. Ideally, under such conditions people can easily obtain information about the availability and costs of goods and services.

Privatization allows services to be provided by businesses, community groups, cooperatives, private voluntary associations, individuals, small enterprises in the informal sector and other nongovernmental organizations. Goods and services that can be provided on the basis of people's ability to pay--such as public transportation, electric power, piped water, or housing--can often be delivered more efficiently and effectively by the private sector than by government (Roth, 1987).

Privatization can range in scope from leaving the provision of goods and services entirely to the free operation of the market to "public-private partnerships." Privatization can take a number of forms such as:

- allowing private sector enterprises to offer services and facilities that were previously provided only by the public sector;
- contracting out the management of public services or facilities;
- financing public sector programs through the capital market and allowing private organizations to participate;
- transferring responsibility for providing services and facilities from the public to the private sector through divestiture.

Deregulation is also a form of privatization. It reduces the legal constraints on private participation in service provision or allows competition among private suppliers for services that in the past had been monopolies only because government restricted on widespread participation.

In recent years privatization and deregulation have become more attractive alternatives for governments in developing countries. The government of Malaysia (1985), for example, is promoting privatization in a variety of sectors, including urban development, because it believes that privatization can:

- relieve financial and administrative burdens on the central government and decrease the amount that it must borrow in order to extend services and infrastructure;
- increase competition, efficiency and productivity;
- accelerate economic growth by expanding the ability of private enterprises to earn profits for investment; and
- reduce the size and presence of the public sector in the economy while at the same time offering better quality services to the public.

The government also contends that privatization can generate employment and investment opportunities and, in so doing, help meet national economic policy goals.

In the Philippines, "the private sector enjoys a distinct advantage over the public sector in undertaking urban development activities," Ramos (1987:711) points out. Unlike the public sector, the private sector "is not constrained by rigorous administrative procedures and requirements, particularly in terms of budgeting, disbursement, accounting and auditing requirements. ...Planning and decision-making on the part of the private sector is not hampered by bureaucratic control and practices as well as by interoffice or interagency referrals and screening. Consequently, private sector projects get easily

implemented within program targets and schedules." Moreover, private sector organizations generally have easier access to private financial markets and use more cost-efficient methods and techniques.

In an increasing number of developing countries, especially in Asia, the private sector is now playing a strong role in urban development. The private sector is heavily involved in land development, urban transportation, housing, education, health and social services, industrial development, and the financing of urban development projects (ADB, 1987). In Malaysia, for example, the private sector operating major urban projects including ports, parking services, refuse collection services, and transport, storage and communications services (Maaruf, 1987).

Local governments are also contracting out some administrative functions. This case significantly lowers current operating expenditures because personnel tends to be the largest cost in operating budgets. In Nepal, many town governments already use private contractors to collect local taxes (McCullough and Stuebner, 1985). In Jordan, some cities auction off the right to collect market taxes (McCullough, 1985) and in Tunisia and in Sri Lanka, municipal markets are rented under tender to private merchants on a annual basis (Minis and Johnson, 1982; McCullough, 1984).

Many central government agencies and municipalities now contract with private organizations and businesses for transportation services, garbage collection, piped water, and even tax collection, taking advantage of the benefits of competition and of market efficiencies, while maintaining some control over standards of quality and assuring access for the poor. In Peru and Sri Lanka, for instance, the government contracts out to private sector organizations specific activities involved in water supply, such as meter reading, computer services and billing and collection (Lewis and Miller, 1986).

Local governments in developing countries are also turning to private consulting firms to perform engineering and accountanting tasks because local government pay levels for these positions are low and skilled professionals may not even be available. In Sri Lanka, for example, it has been proposed to use local accounting firms to run many of the financial management activities of the local authorities, because there are few trained accountants and local authorities cannot attract them (McCullough, 1984).

Through privatization and deregulation some governments have divested themselves of responsibilities for functions by transferring them to voluntary or nongovernmental organizations. In some cases, governments have transferred responsibility to parallel organizations such as national, industrial and trade associations, professional groups, religious organizations, political parties or cooperatives (Rondinelli and Nellis, 1986). These parallel organizations have been given responsibility to license, regulate or supervise their members in performing functions that were previously performed or regulated by the government.

In some cases, governments may decentralize by shifting responsibility for producing goods and supplying services that were previously offered by parastatal or public corporations to private enterprises. More often, government transfers responsibilities to organizations that represent various interests in society and that are established and operated by members of those organizations. These include co-operatives, trade unions, or women's and youth clubs (Ralston, Anderson and Colson, 1981). In Cairo, Egypt, a religious sect, the Zabbaleen, has been granted sole rights to collect and reuse wastes after negotiating contracts with owners of large buildings. Zabbaleen families collect, sort, and segregate wastes. Edible portions are used to feed farm animals and inorganic materials are sold to dealers (Cointreau, 1982).

Another approach to privatization is through public-private partnerships. Contracts are given to private organizations to help provide services that local governments cannot offer efficiently and effectively on their own. Private firms may be used to supplement or extend local government services. In the Central Region of the Eastern Sudan, for example, the Regional Ministry of Health contracts with private organizations employing sweepers with donkey-carts to collect dry refuse and garbage house-to-house in small cities. This was a more efficient and less costly alternative to purchasing expensive imported garbage trucks that could only collect periodically from dust bins scattered throughout the town. This public-private partnership resulted in costs that were only 10 percent of that of truck service. About 26 percent of these costs could be recovered through household charges (Lewis and Miller, 1986).

Another form of public-private partnership used in francophone African countries is the affermage system, whereby the municipality constructs a facility and contracts with a private firm to operate and maintain it. In the Cote d'Ivoire, for example, the government contracts for Abidjan's water supply with SODECI (Societe de distribution d'eau de la Cote d'Ivoire). This private corporation supplies water to households and public fountains with coin operated pumps. The government establishes rules for price-setting. Surcharges on water fees are paid to the municipality to amortize the construction costs of the water system. In Latin America, the governments of Chile and Guatemala offer territorial concessions in large cities for long periods of time to companies that procure, purify, distribute, meter and charge for water. In both countries, tariffs are approved by the national government, which also monitors water quality (Lewis and Miller, 1986).

Assisted self-help programs such as urban sites-and-services housing schemes are also a form of public-private partnership. So is co-production, a process in which the users of services or facilities participate in their production or maintenance, thereby reducing costs.

In brief, no matter how the concept of decentralization is defined, there are only four major ways in which the provision, financing and management of urban services and infrastructure can be decentralized in developing countries. These are through privatization and deregulation; or through delegation;

devolution; or deconcentration (Rondinelli, 1978; Leonard and Marshall, 1982). Each form of decentralization has different characteristics and different impacts on achieving wider participation in financing and managing urban services and facilities, and these are discussed in Part II of this report.

2.5 THE BENEFITS AND LIMITATIONS OF DECENTRALIZATION

Administrative decentralization is neither an end in itself nor a universal solution to the problems of coping with urban development and of providing urban services and infrastructure. Under appropriate conditions, decentralization can improve the efficiency and effectiveness of financing and managing some, but not all, services and facilities. Even when decentralization can improve the financing and management of urban development activities, however, serious political or administrative obstacles may undermine implementation.

2.5.1 The Benefits of Decentralization

The growing interest in decentralizing urban development activities arises from its potential benefits. Decentralization of financial resources and management authority to local public and private organizations in developing countries can improve their capacity to provide and maintain urban services and infrastructure (Rondinelli, 1978, 1981; Rondinelli and Nellis, 1986; Roth, 1986). Decentralization can overcome many of the biases of central ministries that result in inappropriate or unaffordable services. It can give local residents better choices and greater access to services, and increase their motivation to pay for and maintain them (Tendler, 1979).

Decentralization can increase the access of people living in previously neglected secondary cities and towns to a wider range of goods and services (Montgomery, 1972; Uphoff and Esman, 1974); increase local participation in co-production, financing and management of services (Rondinelli, 1986; Uphoff, 1987); and enlarge the capacity of local leaders, through organized interest groups, to put pressure on central and local government agencies for more efficient and effective service provision and infrastructure maintenance (Uphoff and Esman, 1984; Rondinelli and Cheema, 1988).

Reviews of policies, laws and proclamations reveal a variety of reasons governments in developing countries pursue decentralization (Rondinelli, 1983). These reasons include the following:

- By delegating greater authority for financing and managing urban development programs to officials who work closer to the problems, decentralization can overcome the severe limitations of centrally controlled national planning and management. Decentralization allows officials to disaggregate national plans and to tailor development policies and programs to the needs of specific cities and of different neighborhoods or groups within cities.

- Decentralization allows local officials to cut through the enormous amounts of "red tape" and the inflexible procedures that characterize central government bureaucracies in developing nations. The overconcentration of power, authority and resources in the national capital leads to delays and inefficiencies in decision-making and implementation of urban development programs.

- By decentralizing financial and management responsibilities, or by reassigning ministry personnel to field offices, government officials' knowledge of and sensitivity to local problems and needs can be increased. Closer contact between government officials and the local population allows both to obtain better information with which to formulate more realistic and effective plans for urban projects and programs.

- Decentralization allows greater representation for various political, religious, and ethnic groups in urban development decision-making that could lead to greater equity in the allocation of government resources and investments.

- Decentralization can strengthen the administrative capability of local governments and private institutions in cities and towns, and thus expand their capacities to take over functions that are not usually performed well by central ministries, such as the maintenance of roads, health clinics or schools. It can also give local officials the opportunity to develop their managerial and technical skills.

- Decentralization of responsibilities for urban service and infrastructure provision and financing can lead to a better assessment of the relationships between costs and revenues and more flexibility in responding to service needs and financial constraints.

- The efficiency of the central government can be increased through decentralization by relieving top officials of routine tasks that could be more effectively performed by field staff, municipal officials, or private sector organizations. The time released from routine administration would free political and administrative leaders to plan more carefully and supervise more effectively the implementation of national policies and programs.

- Decentralization is needed to elicit participation of citizens in urban development planning and management. A decentralized government structure can facilitate the exchange of information about community needs and channel political demands from citizens to municipal governments and national ministries.

- Decentralization can lead to more flexible, innovative and creative administration of urban development programs. Municipal governments, nongovernmental organizations, and private businesses in cities have potentially greater opportunities to test innovations and to

experiment with new policies and programs without having to justify them for the whole country. If the experiments fail, their impacts are limited to small jurisdictions; if they succeed, preconditions for their replication can be created in other cities.

- Decentralization of urban development programs allows local leaders to locate services and facilities more efficiently within communities, and to monitor and evaluate the implementation of development projects more effectively than can be done by central government agencies.

- Decentralization can increase political stability and national unity by giving groups in different sections of the country the ability to participate more directly in urban development programs thereby increasing their "stake" in maintaining the political system.

- Decentralization provides the opportunity for organizational and social learning by allowing institutions to offer the types of services desired by people with different needs, preferences and utilities.

Thus, in many countries, decentralization benefits both central governments and local organizations (Rondinelli, Nellis and Cheema, 1983). By bringing about broader participation in urban development planning and management it can promote greater responsiveness, accountability, and efficiency, and perhaps even greater political stability and national unity.

2.5.2 Limitations of Decentralization

Although decentralization can broaden participation in decision-making and improve the efficiency of urban service delivery and infrastructure maintenance, it is not always an appropriate prescription for solving all urban development problems. Some services--especially those that are standard, routine, network-based, capital intensive, and servicing a homogeneous clientele--can often be provided more effectively and efficiently by central government ministries (Manglesdorf, 1988).

Even when decentralization is appropriate, the process of decentralization has not always been easy to implement. Decentralization policies have encountered serious implementation problems in the past (Maddick, 1963; Conyers, 1983; Rondinelli and Nellis, 1986). Some of the problems can be attributed to weak political commitment on the part of national and local leaders to diffusing control over investment decisions or to greater participation in decision-making by citizens. Organizational and legal problems have arisen because of the uncertainty about how to implement decentralization programs by local organizations. Shortages of skilled technical and managerial personnel in local governments have been an obstacle to effective implementation.

The tendency of central governments to transfer responsibilities and obligations to local organizations without transferring revenues or the capacity to mobilize resources has undermined decentralization in many

countries. Devolution of authority may be resisted by those who receive it because they distrust the central government's willingness to provide adequate resources to do the job, and fear that the resulting failure will be blamed on them (Gow and Van Sant, 1985). Even in countries where responsibilities for financing and managing urban services has been devolved to local governments, their capacity to carry out their functions is severely limited. DeMello (1982: 11) notes that although local governments in many Latin American countries have the legal characteristics associated with devolution they cannot perform their functions effectively because of "a lack of corresponding financial resources; insufficient staff, both in quantity and quality; inadequate organization and operation of most local services; a tremendous deficit in the quantity and quality of urban services that has been accumulating throughout decades or even centuries; and the absence of a clear definition of municipal functions and of the role of municipalities vis-a-vis the central government or the intermediate government level, in some countries."

Moreover, inappropriate policies of privatization and deregulation can have adverse social and economic effects. Often, central governments are the only political units that have broad enough political constituencies to assure some degree of equity in the distribution of goods and services and sufficient political power to redistribute resources. Sometimes privatization results in the creation of monopolies. Large groups of people with low incomes can be excluded from obtaining goods and services when they are privatized or deregulated. It may be unwise to try to privatize the provision of merit goods, services in which substantial externalities are not reflected in the accounts of private suppliers, and services and facilities for which charges cannot be levied on individual consumers (Roth, 1987). Criteria of efficiency and effectiveness must be balanced with those of equity and feasibility in deciding what actions are appropriate in any given situation.

In addition, extensive deconcentration and delegation can lead to serious problems of coordination. The proliferation of public corporations, state-owned enterprises, special function authorities, and quasi-public institutes in Africa and Latin America has introduced new inefficiencies in the provision of some services (Shirley, 1983). In many Latin American countries deconcentration and delegation have merely expanded the power and control of the national government at the expense of local governments (Harris, 1983).

Decentralization can also be a means through which central governments simply divest themselves of obligations for performing important social functions or through which they diffuse political pressures to deal with critical social needs. Social problems may become less visible nationally and internationally if responsibility for them is shifted from the central government to many local organizations or are defined as issues most appropriately dealt with through "self-help." Manglesdorf (1988: 84) points out that urban squatters are sometimes able to get faster action from central government ministries when they organize themselves to bring strong and visible political pressures on national leaders than when they organize to provide themselves with public

services and facilities: "when the beneficiaries solve these problems themselves, rather than pressuring government for a solution, the natural tendency of a bureaucracy which is spread too thin is to direct its energy to putting out fires elsewhere." Decentralization may simply serve to get the central government "off the hook" in providing services and facilities or in solving urban problems.

Finally, privatization has been slow to take hold in much of Latin America and South Asia, where there has been and continues to be a deep suspicion of the private sector in urban development. In India, observers note that "the degree of private sector involvement in urban development is constrained by the perceptions that the public sector needs to operate in the interest of controlling speculation and the equitable distribution of economic opportunities" (Sunthankar and Sundaram, 1987: 410). They point out that in the past "private sector activity in many cities has taken the form of promoting the development of unauthorized colonies on land reserved for the green belt or for a public purpose, speculation in peripheral areas, and the development of small plots within the city."

2.6 CONCLUSIONS

Despite its limitations and the difficulties of implementation, the benefits of decentralization can far outweigh the problems. As developing countries continue to urbanize, as their systems of cities become more complex, and as the need for services and facilities become more pressing, decentralizing responsibility for urban development programs will become more urgent.

International assistance organizations can play an important role in helping governments in developing countries to determine which urban services and facilities can be provided in a decentralized manner, how to select the appropriate financial and organizational arrangements for providing and maintaining services and infrastructure, and how to design policies and programs for the decentralization of urban development activities.

If the benefits are to accrue to developing countries, however, policy analysts must choose the appropriate arrangements for financing, organizing and delivering services and infrastructure. Not all services and facilities can or should be financed and managed in a decentralized fashion. Some services and facilities are provided better by a single organization that can take advantage of economies of scale and efficiencies of mass procurement and distribution. Others are more efficiently and effectively provided by a large number of organizations at the local level.

Policy analysts must examine the issues of:

- who should decentralize;

- what services, facilities, infrastructure or development activities should be decentralized;
- how to decentralize; and
- to which level functions should be decentralized.

2.6.1 A Process for Analyzing Decentralization Policy

To be effective in bringing concepts and knowledge to bear more effectively on policy analysis and program design, a framework for analysis is needed that focuses on alternatives for organizing and financing urban services.

Such a framework is depicted in Figure 1. Its components include:

- Step 1: Analysis of political support for decentralizing urban development activities;
- Step 2: Analysis of the characteristics of local goods and services and their users;
- Step 3: Assessment of alternative financial options for decentralizing urban services and infrastructure;
- Step 4: Analysis of organizational alternatives for providing urban services and facilities;
- Step 5: Assessment of socio-economic and organizational conditions affecting the design of policy and the implementation of programs; and,
- Step 6: Selection of feasible policy interventions and instruments for policy dialogue, project and program design, financial and technical assistance and program evaluation.

Policy analysts can use a variety of criteria to determine what degree of decentralization that is necessary to provide urban services and infrastructure most effectively. Among those criteria are the degree to which decentralization (Rondinelli and Nellis, 1986):

- contributes to achieving political objectives;
- increases administrative effectiveness;
- promotes economic and managerial efficiency;

FIGURE 1

FRAMEWORK FOR ANALYZING FEASIBILITY OF DECENTRALIZING FINANCING AND MANAGEMENT OF URBAN DEVELOPMENT ACTIVITIES

Step 1: Preliminary Analysis of Political Support	Political Commitment Acceptance of Participation Administrative Support Technical Assistance Capacity Channels for Representation and Interaction
Step 2: Analysis of Characteristics of Goods and Services and Their Users	Characteristics of Urban Goods and Services Institutional Structures of Service Provision Institutional Structure of Service Use
Step 3: Analysis of Financial Options	Self Financing and Cost Recovery Co-Financing and Co-Production Expansion of Local General Transfers Intergovernmental Transfers Expansion of Municipal Borrowing Employment Generating Service Provision Cost Reduction
Step 4: Analysis of Organizational Alternatives	Subnational Administrative Units Municipal and Local Governments Public Enterprises Market Surrogate Arrangements Assisted Self-Help Programs Cooperative or Membership Organizations Public-Private Partnerships Performance Contracting Private Enterprises and Informal Sector Organizations
Step 5: Assessment of Factors Affecting Implementation	Political Factors Organizational and Administrative Factors Behavioral and Psychological Factors Resource Factors
Step 6: Assessment of Feasible Interventions	Implementation Strategy Policy Instruments Program and Project Design

- promotes greater financial self-reliance among local groups and organizations;
- increases government and private sector responsiveness to the diverse needs and demands of the urban population; and
- contributes to the productivity and efficiency of the urban economy.

Experience suggests that the potential political, economic and social impacts of decentralization must be assessed early in the design stage if policies and programs are to be implemented effectively. Part II of this study describes the framework for analyzing and planning for decentralization. The guidelines can help policy analysts to compare systematically the financial and organizational alternatives for providing urban services and infrastructure in a decentralized manner, and to assess the political, economic, behavioral and resource implications of decentralizing. Finally, the framework and guidelines described in Part II can assist policy analysts to identify the technical and financial resources needed by organizations that will receive new responsibility for urban development programs. They can help international funding institutions and national governments to tailor their aid programs to the needs of those organizations.

PART II: GUIDELINES FOR ANALYSIS

CHAPTER THREE

ASSESSING URBAN SERVICES AND USERS

The forces at work convincing governments in developing countries to promote decentralization were described in Part I of this report. Most governments now need guidance about how to decentralize urban services effectively. The focus of Part II is on implementation issues. This section describes a framework for analyzing the potential for decentralization.

If decentralization policies are to be implemented successfully they must be designed carefully. Analysis should focus initially on the characteristics of the services to be decentralized, the characteristics of their users, and the financial and organizational alternatives for providing urban services and facilities in a decentralized fashion. Any framework for analyzing decentralization should link together the two major disciplinary approaches to analysis: the public choice and the public finance and administration approaches (see Appendix A).

Analyzing the potential for decentralization of urban development activities must begin with at least a preliminary assessment of the level of political commitment to decentralization by national government leaders. At this stage it is also important to gauge the willingness of central government ministries and agencies involved in urban development activities to support decentralization.

3.1 PRELIMINARY ASSESSMENT OF POLITICAL SUPPORT FOR DECENTRALIZATION

Given the long tradition of central control over urban services and infrastructure investment in developing countries, any attempt to analyze the feasibility of alternative financial and organizational arrangements for decentralization must begin with an analysis of the degree of political and administrative support among national political leaders. The political acceptability of decentralization among those groups and organizations to whom new responsibilities will be given must also be assessed. A substantial number of studies of decentralization in developing countries indicate that problems of implementation are rooted in weak political support (Cheema and Rondinelli, 1983).

Analysts must at the outset, therefore, attempt to gauge how much political support and commitment there is to decentralization. Experience with decentralization in developing countries (Rondinelli, et al., 1983; Cheema and Rondinelli, 1983; Rondinelli, 1986) suggests that the effective implementation of decentralization programs requires:

- Strong political commitment and support from national leaders to the transfer of planning, decision-making and managerial authority to field agencies and to lower levels of administration.

- The acceptance by political leaders of participation in planning and management by organizations that are outside of the direct control of the central government or the dominant political party.

- Support from and commitment to decentralization within line agencies of the central bureaucracy.

- The willingness of central government officials to transfer functions previously performed by them to local units of administration or to nongovernmental organizations.

- Administrative and technical capacity within central government agencies and ministries to carry out national development functions and to support--with adequate planning, programming, logistical, personnel and budget resources--their field agencies and lower levels of government or private sector organizations in performing decentralized functions.

- The existence of or ability to create effective channels of political participation and representation for urban residents that allow them to express their needs and demands.

At a minimum, policy analysts should have a clear idea of which groups and organizations are likely to benefit from decentralization, which groups and organizations are likely to perceive a loss of power and resources, and the degree of political support and opposition that is likely to arise from proposals to decentralize particular types of functions.

In most countries political support and opposition to policy proposals only crystallizes after specific programs are formulated. Political theory provides useful insights into the relationships among interest groups on institutional change issues that will be decided by political processes. Lowi's (1972) work on differentiating the types of political interaction and relationships among interest groups on various policy issues offers guidelines for further research and testing in developing countries. He notes that different types of interest groups become involved and interact with each other in different ways on distributive, regulative, constituent, and redistributive policies. Classifying the policy arenas in which issues will be analyzed is critical to understanding how interest groups might behave and which groups are likely to participate.

The political dimensions are crucial because many of the decisions made about institutional change, even in non-democratic societies, result not from rational calculation by individual decision-makers but from political

interaction and compromise (Cleaves, 1974; Grindle, 1980). Interest groups are critical in forming coalitions that are large and powerful enough to legitimize institutional change.

Although it is necessary to make a preliminary assessment of political support for decentralization, more detailed analyses of the political, organizational, behavioral and resource factors affecting implementation must be made again after specific financial and organizational arrangements are proposed. These factors are described in more detail in Chapter Six.

3.2 ANALYSIS OF THE CHARACTERISTICS OF LOCAL GOODS AND SERVICES AND THEIR USERS

After policy analysts determine that sufficient support exists for decentralization, they must focus on the characteristics of local goods and services, the socio-economic characteristics of service users, and institutional rules of behavior affecting the use of urban services and facilities.

3.2.1 Characteristics of Local Goods and Services

Analysts must determine the most advantageous ways of organizing and financing urban development activities. Analysis of the characteristics of local goods and services helps cope with two problems that appear frequently in developing countries: the "free rider" problem and the tragedy of the commons.

The "free rider" problem arises from the fact that some public goods are provided in such a way that it is in every individual's interest to consume them, but it is in no one's self-interest to pay for them. It is not in an individual's self-interest to pay for a service that, once provided, is available to all and from which individuals cannot be excluded. In an extreme case the incentive to act as a "free rider" may result in a needed public service not being provided at all even though everyone could benefit from its provision.

The tragedy of the commons is that every self-interested individual will tend to over-consume a resource from which no one can be excluded because if he does not consume as much as possible, someone else will. Continued over-consumption or over-use will, of course, eventually deplete the resource to the detriment of the entire community. The non-excludability characteristic is one of the primary arguments for providing certain classes of goods and services by collective organizations--such as governments--with the power to coerce payment and regulate consumption.

In developing countries, roads and streets are a good example of a service that shares some of the characteristics of a public good and of a common resource, providing the opportunity for overconsumption and little incentive to pay for construction and maintenance. Once a street is built it is difficult to exclude people from its use. In addition, it is difficult to get individuals to contribute to its maintenance because the benefits are available even to those who do not contribute. Thus, roads and streets tend to be over-used and under-maintained. Although some streets can be designated as toll goods and charges can be levied to limit use and cover costs, there are severe practical and political limitations on the proportion of roads or streets in urban areas for which direct charges can be made.

The functional characteristics of services and infrastructure and the characteristics of users are usually analyzed by the following criteria (Ostrom and Ostrom, 1977):

- excludability
- jointness of consumption
- willingness to pay
- relation of payment to demand and consumption
- availability of financial resources to pay
- strength of the public services industry to produce and provide services
- measurability of the quantity and quality of the service
- degree of consumer choice in using the service
- basis of allocation decisions concerning the service (market versus political processes)
- type of production technology

These criteria help to categorize local services and infrastructure and indicate the most effective and efficient financial and organizational alternatives for their provision analysts usually use four categories (Mueller, 1979; Ostrom and Ostrom, 1977):

a. Public Goods.

Public goods are those that are consumed jointly and simultaneously by many people and from which it is difficult to exclude people who do not pay. Public goods include those services and facilities whose benefits are least likely to accrue to any one individual and are most likely to be useful only if provided for a community as a whole. Parks and conservation, sanitary and health inspection services, highways and streets, planning and zoning regulations, fire fighting and prevention, police protection, building and housing inspection, and judicial functions are generally considered to be public goods. Payment (usually through general taxes) for the goods is not closely related to demand or consumption. Allocation decisions are made primarily by political processes. Individuals generally have little or no choice about whether or not to consume them, and the quantity and quality of such goods are relatively difficult to measure.

Often, because of these characteristics the private services industry cannot provide them profitably and responsibility for their provision usually falls to public agencies. Allocation decisions are frequently made to satisfy political interests because all interest groups claim access to them.

But even when all of these criteria are not met some services and facilities are considered to be public goods in some countries because of imperfections in market mechanisms; because of technical or intrinsic characteristics of specific goods that result in externalities; or because of concern with the quality of the environment (Steiner, 1974). Moreover, some services and infrastructure may be widely considered to be public goods in some countries and not in others because of cultural or political reasons.

b. Open Access Goods.

Open access goods are those from which people cannot easily be excluded and that are not jointly used. Their use by one group of people does not intrinsically preclude their use or consumption by others. These services do benefit individual consumers and their use can be priced. But they also have substantial positive spillover or indirect benefits for the community. In most cities, open access goods include potable water supply, waste disposal, public health services, transportation, education, recreation programs, and libraries. In peri-urban areas and small towns they may include ground water, common pastures, fish-bearing lakes and rivers, and most other natural resources.

c. Joint Use Goods.

Joint use, toll or utility goods are those that can be provided on the basis of people's ability to pay. Exclusion is usually feasible and the use is joint, that is, the use of the goods by one group of consumers usually limits or precludes the use of the same goods by others. Examples include piped water, gas and electricity, some types of roads and waste disposal, and some types of transportation. These services and facilities benefit the individual consumer, who pays for the number of units of service he uses. The indirect benefits are small compared to the direct benefits. The services involve substantial economies of scale and thus are frequently monopolistic.

Again, whether a service is defined as an open access good or as a joint use good depends not only on the nature of the service, but also on how it is generally perceived by political leaders and the population within a city. Joint use goods can often be provided by market mechanisms. A private services industry either exists or can potentially be developed to provide them. But governments frequently provide these services either because they are not very profitable for private businesses or because the public demands control over monopolies and assurances of a minimum quality of service for everyone.

d. Private Goods.

Private goods are those that can be consumed or used by individuals. Those people who cannot or will not pay for them can easily be excluded. Allocation decisions are made primarily by market mechanisms. Payment for the goods is closely related to demand and consumption, and individuals have a good deal of choice about the kind and quality of goods they consume. It is relatively easy to measure the quality and quantity of these goods and to allocate per unit and marginal production costs.

The classification of goods into these categories can help policy analysts determine which of them can be provided by market mechanisms through user charges or individual payment, and which must be provided by public or collective organizations using general revenues. The typology developed by Rourke and his associates (1987) can help analysts interpret the financial and organizational implications. Figure 2 indicates the combination of public and private investment and public and private management appropriate for services with different types of characteristics.

The functional classification of goods and services can also help to determine when market surrogate, co-production, or quasi-market mechanisms might be used to increase the efficiency of public organizations and how to establish incentives for people to use collective goods more efficiently and responsibly. Analysis of the functional characteristics of services can provide strong clues about the need for deregulation or private provision of goods, or the need to regulate markets to minimize or eliminate imperfections or social adversities.

3.2.2 Characteristics of Service Users

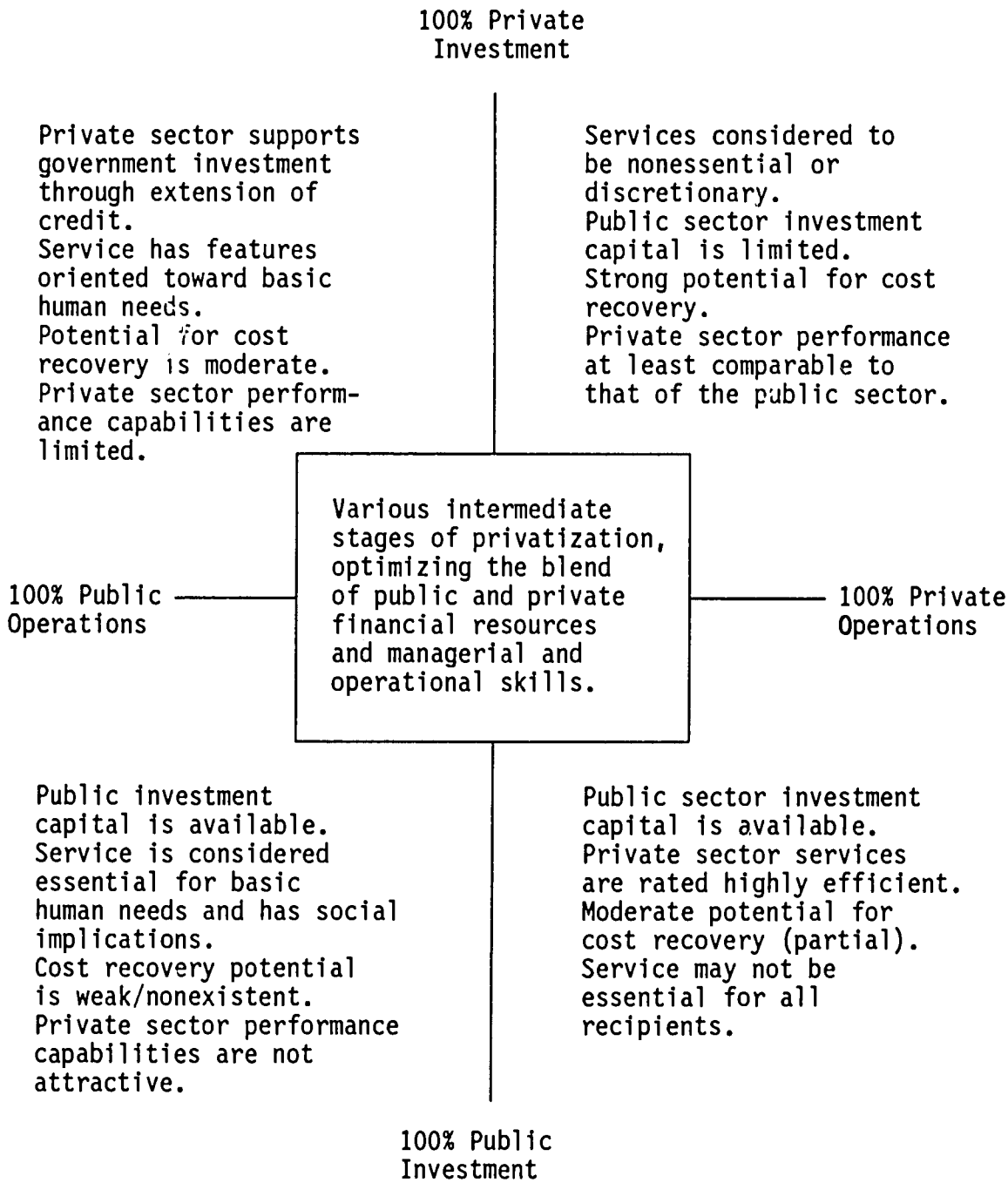
Decentralizing urban services and infrastructure effectively depends on identifying more accurately the social and economic characteristics of urban households and on creating sufficient flexibility in policies and programs to respond effectively to their needs.

Cities, by their very nature, attract diverse groups of people with different social and economic characteristics. Even families living in the same neighborhoods are rarely homogeneous. Recent rural migrants often have substantially different needs than long-time urban residents, and the employable poor require different types of services than those who cannot work. Private enterprises of different sizes and types have different needs for infrastructure, transportation, and utilities and for different combinations of support services.

Moreover, policies have different impacts on groups with different economic, social, ethnic, religious, cultural or political characteristics. Standard "packages" of services for urban residents often end up being inappropriate for some and ineffective for others. More precise and accurate identification of the needs of urban neighborhoods, households and

FIGURE 2

FACTORS AFFECTING ORGANIZATION AND FINANCING OF URBAN SERVICES



Source: P. Roark, J. Baker, S. Buzzard and H. Cauley, Privatization Study of the Village Water Supply and Sanitation Project, Lesotho, Washington: Water and Sanitation for Health Project, 1987.

enterprises can contribute to more effective, efficient and relevant service delivery policies.

Bamberger and Hewitt (1986: 147) suggest at least six major sets of characteristics about urban service users that should be considered in an analysis of financial and organizational arrangements for decentralization:

- Employment and income characteristics--including total family income, sources of income, income stability, type of employment, labor force participation rate, number of people working, and proportion of self-employment.

- Demographic characteristics of the family--including family size, age composition, education of household head, proportion of children attending school, civil status of household head and geographical mobility.

- Housing costs, quality and value--including house value, construction quality, house size and access to services.

- Health--including infant mortality rates, time lost from work or school due to illness, access to medical services, and amount spent on medical services.

- Consumption patterns--including amounts saved and amounts spent on housing, food, clothing, transportation, and health.

- Community participation--including participation in political, social and religious organizations, and satisfaction with the community and with the economic and political situation.

These data may be available in census studies or may have to be collected through sample surveys, case studies of sample households, or observational techniques.

The failure to understand the social and economic characteristics of service users often leads governments to design and implement of decentralization policies and programs ineffectively. In some cities bureaucracies view the problems of the poor inaccurately, promote policies that discriminate against them, or propose solutions that make services for the poor more costly than for other groups. In these situations, community self-help may be the only feasible means of increasing the access of the urban poor to basic services. Bamberger and Hewitt (1986: 3) cite the problems of implementing a credit and technical assistance program for artisans working in the city of Campina Grande in Brazil. Only after the program was well underway did evaluators discover "that most artisans considered that the amount of credit was too small to permit purchases of machinery or the hiring of more workers. ... In addition to the smaller

than expected number of credits, it was found that about 25 percent of the beneficiaries were in occupational sectors the project was not intended to over."

Analysis of urban service users is crucial for understanding their behavior. Although economists usually assume that people everywhere act on the basis of rational self-interest, it is well known that human behavior is subjectively rather than objectively rational. That is, interpretations or perceptions of rationality are conditioned by cultural, political and social factors that differ from country to country and among groups of people within the same country. Moreover, political constraints, social taboos, religious principles and well-ingrained economic practices--even inefficient ones--can restrict people from pursuing their concepts of rational self-interest. Studies of behavior in developing countries with Islamic and Bhuddist cultures, for example, emphasize that behavior does not always conform to market-oriented assumptions of Western economists. Keyes' (1983: 865) studies of Thai Bhuddists, for instance, found that although people "do seek through rational calculation to maximize the well being of themselves and their families, they are constrained in doing so by particular political and economic conditions within which they live and also by the particular world of meaning in which their actions make sense." Keyes concluded that for Thai Bhuddists "the world is a moral universe in which individual desires, to employ Bhuddist language, are to be brought under control by moral reflection on whether one's actions cause suffering to others."

Over time, these restrictions shape peoples' attitudes, mold their behavior in seemingly "irrational" patterns, and influence the type and amount of services they demand. Understanding the characteristics of service users is essential to gauging their willingness to pay for services and their perceptions of which goods and services should be provided by government or the private sector. For all of these reasons, policy analysts must understand the political, economic, social and cultural characteristics of service users before they propose organizational and financial changes.

3.2.3 Institutional Structure of Service Provision and Service Use

A third aspect of analyzing the feasibility of decentralization is the identification and assessment of the institutional characteristics of service provision and the structure of service use. This includes the rules of behavior, patterns of service use, and the demand for institutional change.

Analyses of institutional patterns of service production and use are important because the most appropriate mode of delivery for any particular service depends on a variety of factors such as the size of the city, the number and characteristics of people to be served, the cohesiveness of neighborhoods, the management capacity of local organizations and the strength of private sector service industries. In cities and countries

where there are political constraints on public participation, for example, organized self-help may not be a feasible approach. This may also be true where local leadership is weak, communities are not socially cohesive, and support from government agencies for community efforts is not forthcoming.

a. Institutional Analysis of Service Providers

Assessments of institutions providing urban services can give policy analysts insights into the comparative strengths and weaknesses of the public and private sectors to finance, deliver and maintain urban services and infrastructure efficiently and effectively.

One means of assessing public institutional capacity to provide urban services and infrastructure at the municipal level is the "Municipal Management Assessment" (Johnson and Johnson, 1986). The Municipal Management Assessment analyzes the capabilities of municipal governments to provide urban services from two perspectives: the national level and the municipal level. (See Figure 3.)

The national level assessment gathers information on (Johnson and Johnson, 1986: 9):

- the public service functions that municipalities are allowed or required to perform;
- policy changes that are being considered that may expand or shrink municipal functions in the future;
- enabling legislation and constitutional provisions that affect municipalities' ability to carry out those functions;
- the role of national and regional government ministries and institutions in regulating and providing technical and financial assistance to municipalities;
- the capacity of national and regional institutions to carry out their functions vis-a-vis municipalities;
- specific constraints or practices at the national level that influence local activity, for example, delays in returning locally generated revenues to the municipality; and,
- broad financial performance information to assess the relative importance of central and local governments in providing urban services.

The municipal level assessment gathers information on (Johnson and Johnson, 1986: 14):

FIGURE 3

COMPONENTS OF MUNICIPAL MANAGEMENT ASSESSMENT

NATIONAL LEVEL ANALYSIS

- o Basic Documents to Obtain
  - Municipal Organic Statute
  - Annual Legislation
  - Other Statistics; Budgets
- o Agencies, Ministries Organizations to Visit
  - Principle Local Government Oversight Agencies
  - Ministry of Finance
  - Ministry of Community or Urban Development
  - National Planning Agency
  - Regional Development/ Planning Agencies
  - Central Bank
  - Technical Assistance Agencies

MUNICIPAL LEVEL ANALYSIS:

ASSESSMENT OF GENERAL ADMINISTRATION FUNCTIONS

- o Planning
- o Financial Management
  - Revenues Estimation
  - Revenue Collections
  - Operations/Current Budgeting
  - Capital Facilities Planning and Budgeting
  - Cash Management
  - Debt Management
  - Purchasing
  - Accounting
- o Personnel

ASSESSMENT OF SERVICE DELIVERY FUNCTIONS:

- o Overall Organization Structure
- o Personnel
  - Distribution
  - Work Assignment Processes
  - Use of Contract or Non-Municipal Personnel
- o Materials Acquisition and Management
- o Work Process Management
- o Client-Based Delivery
- o Departmental Budgeting Process

Source: S. Johnson and R. Johnson, Guidelines for Conducting a Municipal Management Assessment, Research Triangle Park, N.C.: Research Triangle Institute, 1986.

- the political and structural features of the municipality;
- the relationships among the municipality and national or regional ministries and other institutions operating at the municipal level;
- the municipality's legal and political ability to carry out its functions;
- the organization of municipal services, including the role of parastatal and private sector organizations in public service provision;
- the organization and functioning of important support activities including personnel management, operating and capital budget planning and resource allocation processes, and accounting and other information support functions;
- the level of technical knowledge, based on the background, experience, and formal training of municipal officials.

The Municipal Management Assessment can help analysts assess the entire system of local service and infrastructure provision and of determining the relative importance and capacity of central governments, local governments and private organizations in financing, managing, delivering and maintaining urban services.

b. Institutional Analysis of Service Users

Policy analysts must not only understand the institutional patterns of service provision but also the institutional patterns of service use, including rules of behavior of service users, patterns of service use, and the demand for institutional change.

Institutional and economic analyses, and especially the analysis of property rights, can improve policy-makers' understanding the rules by which people use public and open access goods. Institutions, in the broadest sense of the word, transcend particular organizational arrangements and are defined by public choice theorists as "a public system of rules that specify certain forms of action as permissible, others as forbidden, and provide for certain penalties and defenses when violations occur." As Runge (1984: 807) points out, "institutions channel the behavior of people with respect to each other and their belongings, possessions, and property, providing assurance by setting the rules of the game. They increase the value of a stream of benefits associated with economic activity by coordinating behavior and reducing uncertainty in the realm of human interaction."

Research indicates that people in various parts of the developing world have formulated and maintained detailed and effective regulations and rules

of behavior about the use of public goods and common resources (McKean, 1986). However, the nature of open access and collective goods leads some groups to abuse them. It is crucial for policy analysts to understand these rules of behavior before they develop incentives or regulations to protect or ensure fair access to resources.

Many cooperative or privately devised institutional patterns of service use are more efficient and effective than those imposed by government regulation. Others generate social adversities such as resource pollution or deterioration, allow "free riders" to make use of the services and resources without contributing to their financing, and can exclude groups arbitrarily or unfairly that need or desire them. These adverse effects can often be ameliorated through appropriate incentives or public regulations.

Many of the problems of providing and maintaining services, and of dealing with overconsumption or overuse of resources, in developing countries also arise from the failure of governments to detect common property institutions and to assume that a resource is unowned and therefore in need of government regulation.

Policy analysts must also attend to the important problems that arise when people must cooperate to achieve a goal that is in community interest, but for which the costs to individuals of cooperating may exceed the short run benefits. Bamberger and Hewitt (1986) cite the problems involved in the World Bank's first urban development project in Lusaka, Zambia. The Bank provided resources to fill insanitary wells and construct communal standpipes that were to be shared by groups of 25 families. The organization providing the water attempted to use group pressures to encourage all families to pay the service charges and declared that water would be cut off if any family in the group did not make payments on time. Despite these threats, however, and the actual cut-off of water in some cases, repayment rates were extremely low. When water was cut off, families either made illegal connections or reopened wells infected with cholera. The repayment scheme failed because the service providers knew little about the institutional and behavioral characteristics of the users. Evaluations later found that low cost recovery was due to a number of reinforcing factors (Bamberger and Hewitt, 1986: 123):

> Many politicians opposed poor families having to pay for water and tried to stop water being cut off. The project accounts were several months in arrears so that families sharing a standpipe did not in fact know who had not paid. The office where payments had to be made was poorly supervised and was often not open when families tried to make payments. The idea of group pressures to insure cost-recovery was only introduced at a late stage when defaults had already reached a high level. The process had not been explained to families and many neither understood nor accepted the concept of communal responsibility. Many

families were recent migrants from rural areas where water was considered to be a gift from God which was obtained free from rivers or wells. Many did not understand why they should be expected to pay for water.

Problems arising from a lack of understanding of institutional and individual behavior also plagued a sites-and-services housing project in Dakar, Senegal. The urban housing project experienced extremely slow rates of housing construction and occupation by plot owners in part because most families were building houses that were larger and more expensive than they could afford (Bamberger and Hewitt, 1986). Only after an investigation did the project managers discover the reasons. The problems resulted from lax screening procedures, allowing many higher income families to obtain plots. These families built more expensive houses than the average plot owner could afford, and the higher building standards were emulated by other plot owners. Many families who obtained plots were not aware of the cost implications of building larger houses and most did not understand the concept of core shelter construction and incremental expansion--an essential aspect of sites-and-services schemes. Finally, city government officials were reluctant to approve plans for small houses, and plot owners had difficulties in getting plans for modest houses accepted.

Policy analysts must assess not only the characteristics of institutional procedures and individual behavior of service users, but also of the willingness of both service providers and service users to accept institutional changes. Those contemplating changes in the way urban services and infrastructure are provided must do some form of risk analysis. Risk analysis assesses the willingness of individuals in developing countries to accept institutional changes in the face of individual costs and benefits. Policy analysts must be able to gauge the real demand for institutional changes that will result from decentralization.

Some economists correctly point out that it is not sufficient to understand the current characteristics of institutions. Nelson and Winter (1982) note that the capabilities and rules of institutions change over time as a result of both deliberate problem solving and random events. Unless policy analysts understand the evolution of institutions and the causes of past changes in capabilities and rules, they cannot prescribe effective changes for the future.

In brief, analysis of the functional characteristics of services and users, and the institutional patterns of service provision and use, can help planners recommend the best means of delivering and maintaining urban services and infrastructure and of organizing and financing urban development activities.

CHAPTER FOUR

ASSESSING THE FINANCIAL OPTIONS FOR DECENTRALIZATION OF URBAN SERVICES AND INFRASTRUCTURE

After analysts assess the political feasibility of decentralization and the characteristics of services, users and institutional rules of behavior they must evaluate alternative financial and organizational arrangements for providing services more effectively and efficiently. This chapter provides guidelines for assessing alternative financial arrangements for decentralization.

Financial responsibility is at the core of the concept of decentralization. If decentralization is to enable local organizations to provide urban services and infrastructure more effectively, then they must have stronger authority to raise revenues, and their capacity to actually generate larger amounts of revenues must be strengthened. These conditions are not the same. In many countries, local governments possess the legal authority to impose taxes. But the tax base is so weak and the dependence on central subsidies so ingrained that no attempt is made to exercise that authority. A wide range of sources is available at the local level in developing countries for financing urban services and infrastructure, without relying only on central government funds. Substantial amounts of local resources lie untapped even in countries that are quite poor. Financial management and municipal development assistance to eight panchayats in Nepal, for example, resulted in a 69 percent increase in revenue collections (McCullough, 1986). Analysis of financing arrangements must be concerned with the questions of who pays, how the payment amount is determined, and what form the payment should take.

Policy analysts should consider seven major financial options for decentralizing urban services and infrastructure:

1. Self-financing and cost recovery can be achieved through user charges, betterment levies and land readjustment programs. User charges can be levied for those services or infrastructure for which there are direct relationships among the costs of providing the services, the amount charged for the services, and the amount of services received. Betterment levies are taxes for those services for which there is some direct relationship between providing the service and improvements in the value of property owned by the beneficiaries. The costs of providing services are recovered by taxing surplus value created by public improvements on or near private property. Land readjustment programs--whereby land owners pool their property for service improvements and contribute a sufficient amount of land to compensate government for the cost of the improvements--may be an effective way of recovering the costs of servicing urban land that is likely to be developed in the near future.

2. Co-financing is an arrangement through which the users participate in providing services or maintaining a facility, and thereby reduce the overall costs to a level lower than if the services or infrastructure were provided entirely by government. Community resources can often be mobilized for co-financing through labor contributions by beneficiaries. Some communities use fiestas, fairs, and ad hoc contributions and donations to raise funds for self-help service provision. Some communities establish small-scale productive activities to raise funds for services and for infrastructure construction and maintenance.

3. Expansion of local general revenue is another means of financing urban services and facilities. Property taxes and other indirect charges must be used to pay for those services that are of value to the community as a whole, but for which individual beneficiaries cannot be charged.

4. Intergovernmental transfers provide loans or grants to local governments from national general revenue sources, or earmark funds from specific revenue sources such as taxes, import duties, fees and fines, amusement or entertainment taxes or lotteries to pay for urban infrastructure and services.

5. Authorization of municipal borrowing, and the mobilization of national or local government resources (through loan guarantees or subsidized credit) for individuals to obtain services from private providers, are other means of financing urban development activities.

6. Employment generating service provision arrangements--that is, service provision and infrastructure construction programs that employ the labor of community residents and increase their incomes to allow them to purchase services-- can expand effective demand for public goods.

7. Cost reduction measures through the modification or elimination of public regulations that artificially increase the price of public goods and services or that obstruct private sector provision are also a source of additional financial resources for urban development.

4.1 SELF-FINANCING AND COST RECOVERY

Decentralization of responsibility for the provision and maintenance of urban services and facilities places great pressures on local governments to find ways of making larger numbers of services self-financing. Investment and operating costs of urban services and infrastructure must be recovered either through user charges or by assessing fees on property owners who benefit from services and facilities in increased property values.

4.1.1 User Charges

User charges are fees that are levied on users of services or facilities in direct proportion to the amount they use or the frequency with which they use them. Tolls on urban highways are a good example; so are water service charges, airport departure fees, parking meter charges, and charges for admission to public recreation facilities. Netzer (1970: 84) offers a concise rationale for charging users for public services and facilities:

> If the purpose of providing the public service is to offer different customers the services they want, and place some value on, then they ought to pay for services in proportion to the costs. Otherwise, governments will be called upon to provide a great deal more of the service than people would be willing to consume if they did have to pay for it--a wasteful use of resources; or the service will be in such short supply that a form of non-price rationing will be employed to allocate the service among consumers. The outstanding example is street congestion in cities: users pay for highways in the aggregate but not for specific uses of the streets and therefore, not surprisingly, treat highways as a free good. The only deterrent to use of the streets at the most crowded times and in the most crowded places is the value one places on time; the rationing in effect then results in those who place a low value on time preempting the street space from those who place a high value on time.

User charges are likely to become a major source of new financing for local services in developing countries for two reasons. First, national government revenues are limited and increasingly committed to other types of expenditures of higher national priority. Second, local government revenues can only increase so much without a corresponding increase in service quality and quantity.

User charges have a number of advantages as a means of recovering costs or of financing urban services and facilities:

- When they are designed effectively, user charges tie the amount consumers pay to the amount they use. Those people who use the most services or use them most frequently pay more than those who use less.

- User charges are relatively easy to assess and to collect, especially in situations where consumers must pay the fee prior to or at the same time as receiving the service. Services can be terminated if charges are not paid.

- When users are charged for services or facilities, it gives consumers greater choice in the amount of the services they wish to consume and some ability to affect the quality of services by varying the amount they use.

- User charges are flexible--they can be adjusted as costs change over time. Also, charges can be set at the appropriate level to cover both service delivery and facilities maintenance, thereby encouraging better care of infrastructure and equipment.

- When they are applied effectively, user charges encourage fiscal discipline among both service providers and service users.

There are also some disadvantages to user charges:

- They are often difficult to levy for services considered to be essential for the public welfare or that are basically indivisible, such as police and fire protection, or services to which governments attach a high political priority.

- In some developing countries, urban roads and streets, for example, raise problematic issues because they provide both private and public goods. It is hard to exclude non-payers from using a road or street and it is difficult to measure "consumption" of the service. Some users will benefit financially from access to a new road or street, but most people will only receive the general benefits of living in a community with better roads. Of course, the government can impose toll charges, but users must have adequate incomes to pay the costs.

- Levying too many toll charges for public facilities in cities with large numbers of poor households runs political risks for local officials and may be socially unacceptable. The construction and maintenance of street and highway systems in developing countries is often seen as the central government's obligation, which makes it difficult to convince citizens to pay special fees for them and for national officials to consider imposing too many tolls.

- Another potential problem is that financing by user charges can exclude low-income households from access to essential services, and especially those that are most important for improving the productivity of labor and human capital in cities. Although user charges can be established to reflect differences in ability to pay by incorporating sliding scales for different types of users or amounts of use, the ability of governments to charge poor households for services such as basic health and education is limited.

In any case, in assessing the feasibility of user charges, special attention must be given to the willingness of service users to pay for public goods. Two opposing arguments have been made concerning user charges for health services, for example. One states that full-cost pricing will create substantial financial incentives for people to use services appropriately; that is, to use less costly and more effective sources of care through outpatient facilities or community health clinics rather than general service hospitals (World Bank, 1975). The other contends that health care is so fundamental to public welfare that it "should not depend on the purchasing power of the individual. It is therefore a national responsibility to provide health care that is free, or at least within the means of the individual" (Djukenovic and Mach, 1975: 22). Compromises between the two positions are possible, of course, and one is to permit in-kind contributions to community or neighborhood clinics that entitle individuals or families to a fixed number of visits to the clinics offering preventive services, or referrals to hospitals for curative services. Another is to use sliding scale payments to accommodate low-income families, if ways can be found to discourage providers from offering only those services that are attractive to wealthier individuals and neglecting services needed by poor households.

There is a growing consensus among international assistance organizations that user charges will be necessary to finance the backlog of urban infrastructure projects in developing countries (World Bank, 1988). The success of user charges requires that both government institutions and private organizations have a better understanding of the level of services households will demand if different rates of charge are imposed. For example, if a water utility is considering raising its rates in order to recover a higher proportion of its operating (and perhaps capital) costs, it needs to be able to predict who will disconnect from the system and the number of potential customers who will be discouraged from connecting. Unfortunately, the behavioral assumptions that typically underlie much current infrastructure planning are simplistic. It is commonly assumed that as long as financial requirements do not exceed some fixed rule of thumb, households will purchase the commodity or service. For example, it is generally assumed that a household cannot spend more than 25 percent of its income for housing, or 3 to 5 percent for water. The predictions based on such simple rules of thumb have, however, been increasingly called into question. A recent review of World Bank water projects showed that the initial predictions made about the percentage of poor households that would choose to connect to a new water system were often too high by as much as 50 percent (Whittington et al., 1986).

Better quantitative methods are needed for assessing user charges and for analyzing consumer behavior. A key concept is willingness to pay. People's willingness to pay is a clear indication that the service is valued and, therefore, will most likely be used and maintained. Willingness to pay also indicates that it is possible to establish user charges that will generate the funds required to sustain and expand a

service. The estimation of households' willingness to pay for such services is difficult, however, where local services are not currently provided through private markets because standard methods of market research are often inappropriate. Moreover, household decisions on whether or not to use a public service are often discrete rather than continuous; that is, a household must first make a decision about whether or not to connect to an electricity or water system, as well as how much of the service to buy if it connects. This latter characteristic of consumer demand behavior implies that traditional economic demand models estimated by "ordinary least squares" techniques are inadequate for describing and predicting household choices (Whittington, et al., 1986).

In response to these problems, international assistance agencies are now trying to improve the methodology for estimating household's willingness to pay for public services. This research focuses on two complementary kinds of data that can be used to estimate discrete choice models of household demand for public services.

The first approach is simply to interview an individual and ask directly how much he or she would be willing to pay for a particular public service. This direct approach to estimating willingness to pay is termed the "contingent valuation method." Some of the advantages of using data from a contingent valuation survey are that it is inexpensive, it can be used to value services not presently provided in an area, and it is a procedure for incorporating community preferences in the planning process. The major disadvantage is that for a variety of reasons individuals may not reveal in interviews or surveys their true willingness to pay. Most of the applications of the contingent valuation method have involved efforts to measure the willingness to pay of individuals for changes in environmental quality and have been conducted in the United States and Europe. However, recent applications of this approach for rural services in Haiti, Nigeria, Brazil, the Philippines, and Botswana suggest that it can be successfully used in developing countries for urban services as well (Whittington, et al., 1986).

The second approach is to collect data on actual observed behavior in areas where the particular service is already provided. The major advantage of this approach is that estimates of willingness to pay are based on what people actually do, not on what they say they will do if user charges were to be imposed. Some of the disadvantages are that it may not be feasible in many locations because there is insufficient variation in the characteristics of the public service being studied and the results may have to be extrapolated beyond the range of the available data in order to be applied to places where there is no user charge scheme currently in place. Also, there may be a discrepancy between the revealed value of a commodity and the payments that a household will actually make when the commodity or service is made available. For example, a household may be paying a large amount each month for water from a private vendor, but may be unwilling to pay anything to a water utility for a private connection

because of a belief that it is the government's responsibility to provide water free of charge. Both of these types of data can be used to estimate econometric models of consumer demand.

Because of the discrete nature of many of the choices facing households purchasing public services, such econometric models are being estimated with methods for analyzing categorical data, such as probit or mutinomial analysis. These econometric models can in turn be used to predict consumers' responses to different levels of user charges, as well as estimates of the total economic benefits of the service. Such econometric models also can provide quantitative estimates of the numbers of households which could, in fact, use the service at various levels of user charges and thus provide estimates of total revenues.

4.1.2 Betterment Levies

Betterment levies are a means of capturing the surplus value of land due to public improvements. The rationale for taxing the surplus value of land is that the supply of land in any city is limited while demand for it increases rapidly as a city grows. Moreover, public improvements increase the market value of land on which public services are provided and of property located near public facilities and infrastructure. The difference in value is considered a windfall profit to the owners. This surplus value attributable to public investments and overall urban growth should not accrue totally to the private owners of land; some or all of the increased value should be recaptured by the public. Betterment levies are means of recapturing a share of that surplus value to recover the costs of public investments in urban services and infrastructure.

In New Delhi, India, for example, the government levies a tax to recover 50 percent of surplus value (Misra, 1986). A betterment levy, in the form of a valorization tax on all real property that benefits from local public works has long been authorized for municipalities in Colombia (Bird, 1984). Through the valorization system, municipalities can charge for the cost of a public works project, and for the costs of allocating the valorization tax among among properties and collecting the revenues. Valorization taxes have been an important source of revenues for Colombian municipalities, especially for financing road and street improvements.

However, there are some disadvantages to betterment levies. One is the difficulty of assessing the surplus value that is attributable to public services. Another is the complex administrative procedures involved. In Colombia, for example, there have been serious problems in determining the "zone of influence" of public works by which to identify the properties that benefit from improvements and in determining total costs of public works projects prior to their completion. Valorization taxes in Colombia are supposed to be collected before a public works project begins. But because of the uncertainties in estimating total costs, the collections are sometimes delayed to hedge against the risk of cost overruns. When the

levies are made prior to the start of a project they often do not cover the total cost of improvements. Moreover, it is sometimes difficult to collect levies from property owners, especially in poorer neighborhoods where households have low incomes, where properties are owned by absentee landlords, or where ownership registration procedures are lax. In Colombia, public enterprise and church properties have been exempt from valorization taxes, sometimes creating unfair burdens on individual property owners in communities with large amounts of exempt land. Sometimes payments are delayed because property owners file complaints about unfair assessments. Thus, in many Colombian muncipalities collections have been unstable and erratic (Bird, 1984).

4.1.3 Land Readjustment

Land readjustment is a form of cost recovery that is useful for financing services in areas of a city where new development is likely to occur. Land readjustment is a form of land pooling that allows local authorities to take control temporarily of odd-shaped or scattered parcels of land and then consolidate them into a cohesive development unit without paying compensation to the owners. The municipal government subdivides the land provides the services and facilities necessary for development, and returns most of the remaining land to the original owners in proportion to their land contribution. Some portion of the land is sold by the municipality to cover the equivalent costs of providing the public services and infrastructure. In some countries, such as South Korea, "cost equivalent" land has also been used to provide low-cost housing for poor urban households (Kim, Hwang and Doebele, 1982).

Thus, land readjustment is a means both of extending services to new areas of a city at little or no cost to the government and of allowing private owners to profit from the provision of services needed for development. When land readjustment is used to provide services for low-income housing, it can also directly benefit the poor. In other cases, it may benefit poor households indirectly by allowing funds that would have been spent for extending services to new areas of development to be reallocated to their neighborhoods (Doebele, 1982).

Land readjustment has been applied successfully in Japan, Taiwan, and South Korea, as well as in some European countries. Land readjustment was used extensively for urban development activities and for providing housing for the large numbers of rural migrants who flocked to cities in South Korea during the 1960s and 1970s. By 1984, more than 43,000 hectares of urban land in Korea had been subjected to land readjustment (Lee, 1987).

The advantages of land readjustment are as follows (Nagamine, 1986):

- Land readjustment allows fragmented and scattered parcels to be consolidated--often through land swaps--for more efficient servicing and development. It ensures that adequate land will be

available for schools, infrastructure, utilities, and other services and allows municipal governments to extend services at the time when land is ready for development.

- Land readjustment is usually quite inexpensive for local governments because many of the costs of providing services are recovered by the sale of cost equivalent land.

- The government does not have to pay the "holding costs" for land during the period in which services and improvements are being provided.

- Land readjustment is flexible; it can be used for nearly all types of urban development. And because land readjustment is undertaken with official approval, local authorities can influence the direction of urban development.

- Land readjustment also requires development to take place gradually, thus providing a good means for those involved in or affected by development to adjust to the transition from agricultural to urban land uses on peripheral areas of the city.

There are some potential drawbacks to land readjustment (Nagamine, 1986; Doebele, 1979; Lee, 1987):

- Unless local authorities can control these practices, land readjustment does not prevent land hording and speculation. In Korea and Japan, the values of land around readjustment projects often rose rapidly after public services and facilities were installed, fueling already serious problems of land speculation and price inflation.

- In cities where governments depend solely on the sale of "cost-equivalent" land to recover costs, the high prices at which they had to sell it contributed to rapidly rising urban land costs.

- Land readjustment can increase the costs of land to a level that makes it unaffordable for lower income households and thus reduces the amount of land available for low-cost housing.

- Landowners in peripheral areas of a city may hold their improved land for speculative purposes for long periods of time rather than subdividing it for the intended uses. This may mean that services and facilities are underused for a considerable period of time.

- The amount of "cost-equivalent" land that is taken by the government may be excessive, thereby creating resistance or opposition on the part of landowners. In South Korea, for example, the government has often taken more than half of the land in a project for services, facilities and low-cost housing.

- In both Japan and Korea, the size of plots remaining after land was taken for public facilities was often so small that the municipality had to reduce the level of services and facilities to maintain an adequate size for efficient development.

- Land readjustment does not control building activities and local authorities cannot be certain how land will be used in the future unless zoning and building codes are strictly enforced.

Based on experience in Australia and southeast Asia, Archer (1987:239-240) contends that land pooling and readjustment works best when:

- There is a need for land consolidation because the urban fringe lands are divided into many separate landholdings.

- The relevant local government pooling agency is genuinely interested in achieving the sound development of the urban-fringe lands in its jurisdiction.

- The central government has authorized the preparation and implementation of pooling projects.

- The urban-fringe lands are physically and economically ripe for urban development. That is, the utility network mains are nearby and the market demand for building plots will support the profitable subdivision of the land.

- A majority of the landowners in each of the proposed pooling areas understand and support the use of pooling. This requires that the landowners and other persons or organizations with legal rights over the land be identified and contacted.

- The pooling agency has the power of compulsory land acquisition and is willing to use it against any hold-out landowners.

- There are skilled and competent personnel available to manage the preparation and implementation of land pooling projects.

4.1.4 Difficulties of Recovering Costs in Poor Communities

The ability of governments to extend services to larger numbers of urban residents depends increasingly on their ability to recover costs. But experience with cost recovery in Third World cities has been mixed, especially in communities with large numbers of poor households.
Experience suggests that the poor can afford urban services only when there is a large element of self-help and local maintenance involved. User charges or other cost recovery requirements still tend to drive up costs beyond the reach of a large number of poor residents. Annual rents for public tenements in Madras, India for example, have continued to rise.

More than half of the slum households in Madras earn so little income that they either cannot afford public tenements at all or must pay a very large portion of their income for basic housing and utilities (Seguchi, 1985). Few of the squatters in Kuala Lumpur, Malaysia, have been rehoused in low-cost public housing because the monthly charges have been too high, and many of the sites and services schemes have had high vacancy rates because squatters could not afford the charges for improved plots. Slum dwellers' income was simply too low to support the publicly provided improvements. Only in the on-site, self-help, upgrading programs in which local resources were used to improve services gradually did improvements remain affordable (Hashim, 1985).

In each of these cases cost recovery was difficult to manage and enforce. When it is successfully enforced it can impose such heavy financial burdens on poor families that they are driven from the neighborhoods where shelter or service improvements are made.

4.2 CO-FINANCING AND CO-PRODUCTION

Another financial option for decentralization that falls between direct government provision of services through general revenues and self-financing or cost recovery, is co-financing or co-production. Co-financing of services includes all forms in which citizens take an active role in aiding in service delivery, producing goods and services, or supplementing professional service providers in maintaining public services. Co-financing can reduce the overall cost of services to users and reduce the financial burden on national or municipal governments.

In many countries, communities form "neighborhood watch" groups to help police keep residential areas secure and to act as a deterrent to crimes or sort trash to reduce the costs of disposal. In the El Poblado barrio in Cali, Colombia, poor households sort solid waste into paper, bottles, cans and other categories and haul trash to collection points where recyclable material is sold to reprocessing companies. Neighborhood residents receive small amounts of compensation, some of which is contributed to a community fund that is used to pave neighborhood streets and sidewalks. Low-cost cement blocks are produced in the neighborhood by artisans. This program cuts down on the amount of waste that the municipality must collect from the area, and allows residents to pave neighborhood streets. (Rondinelli, 1986a).

Co-provision allows services to be extended to areas where they would normally not be provided and reduces the amount of resources that the municipality must devote to extending or maintaining services. Thus, co-provision can increase both the equity and the efficiency of service delivery (Ferris, 1984).

Another form of co-financing is through beneficiary contributions of labor or money for the extension of services to the neighborhood in which they live. Experience suggests that committing their own resources will make the contributors more concerned about the success of an urban development program than they otherwise might be, provides stronger incentives for them to maintain services and facilities, and generates a sense of community "ownership." Research indicates a positive correlation between this type of resource commitment and overall project success (DAI, 1976). Beneficiaries contributions can be either in cash or in kind and can be generated in a variety of ways, including membership fees or contributions determined by family size. The United Nations Department of International Economic and Social Affairs (1979: 21-22) points out that "while there is much to be said for the free provision of social services, consideration should be given to the participation of consumers in these services, through token payments either in cash, material or labor. Such an approach tends to lessen the sense of dependency and increase the identification of these services as their own."

An example of successful co-financing and co-production is the Orangi service upgrading program in Karachi. Orangi, the largest slum in Pakistan, lacked even basic sanitation and sewerage services. The Orangi Pilot Project (OPP), therefore, focused on sewage disposal and sanitation as well as women's health and education services and provision of women's work centers. The project successfully established "lane organizations" through which self-help activities were carried out and mobilized local labor, money and materials to co-finance and construct water, sanitation and other facilities. Technical assistance was provided by government agencies, nongovernment organizations, and volunteer social workers, engineers and architects. "Beneficiary participation is ensured by the OPP through continuous meetings to motivate people to take care of their own sanitation program," Ahmed (1985: 67) reports. "Once the lane organizations are created, the beneficiaries are not only the participants but also the planners, executors and directors of the work. Full responsibility for constructing sanitation works lies with the residents." The OPP provided technical supervision and extended services needed to complement those carried out by neighborhood residents or that could not be provided by the community. Monetary contributions from the community were controlled by lane managers. "In a number of lanes people were so enthusiastic that work has started even before the OPP could survey and prepare plans and designs according to the needs of the lane."

Evaluations of the experience suggest that by eliciting the participation of the community's residents in co-financing and co-production of services and facilities, "confidence has been developed among the residents in their own capability to look after their own needs and manage their own affairs," Ahmed (1985;69) concludes. "Thus, the dynamic power of popular participation has been amply demonstrated by people who are among the poorest."

Co-financing and co-production are also common in health projects, especially in smaller towns and cities. These co-production projects require community participation in constructing and maintaining clinics, water and sewerage control programs. In some cases, these community activities are organized by paraprofessional local health workers; in others, town health councils organize community action projects. Local health councils also perform other key functions such as setting priorities and selecting the community health worker (Newell, 1975). Projects of this type are intended to "...promote health from within the community on a continuing basis, rather than from without on an episodic crisis basis" (World Bank, 1975: 383).

Co-financing and production in local health services have a number of important advantages. First, progress can be achieved using resources that are largely within the reach of the community. Second, service expansion does not depend on extensive use of highly educated manpower, expensive facilities and equipment, or high levels of taxable capacity. Moreover, indigenous practitioners--either traditional healers or specially trained paraprofessionals recruited from the local community--have strong ties to their neighborhoods and thus are more likely to gain the confidence of local residents, a crucial factor in the success of co-production . This confidence is heightened when local residents initiate and control the programs.

4.3 INTERGOVERNMENTAL TRANSFERS, GRANTS AND SUBSIDIES

A primary means of financing services, particularly infrastructure and services for which costs cannot be recovered through fees or charges or for which the government has decided not to charge at the marginal cost level, is central government transfers to local governments. There are a variety of reasons, of course, why governments offer public services below marginal costs. Services such as public health or sanitation have positive external benefits for a much larger population than those who receive them directly. Government provides other services at less than direct cost to achieve equity in distribution. Providing goods and services at subsidized prices expands access for households that could not afford them at market prices. For pure public goods, access or use cannot be limited to only those who are willing to pay, and user charges are impractical. Some services have to be priced below marginal costs because other markets may not provide incentives or may create disincentives for their provision. For example, the lack of credit may discourage investment in low-cost housing construction (Jimenez, 1987).

Transfers can take many forms. In general, transfers can be made through:

- a shared tax, which is collected by the central government and shared with local jurisdictions

- formula grants, by which the central government distributes resources by specified criteria such as population size or number of service users residing in a jurisdiction

- ad-hoc grants for particular types of services or facilities that the central government wishes to promote

- reimbursement grants for certain specific types of expenditures made by local governments

- tax credits to individuals and businesses for investing in specified activities or producing particular goods and services that government is encouraging

- vouchers to individuals or households that can be used to purchase goods and services from local governments or private organizations.

Grants can be made from the central government to local governments as a way of encouraging localities to provide urban services and facilities or to undertake urban development programs to which the central government gives high priority. Either central or municipal governments can also provide grants and subsidies to nongovernmental or private organizations for the same purposes.

Intergovernmental transfers from the central to local governments are a major source of revenue for municipalities and a major source of funding for urban development programs in many developing countries (Prakash, 1988). In Malaysia, the federal government provides more than 85 percent of local government revenues; in Pakistan the central government contributes 89 percent. Three-quarters of the all funding for urban services and infrastructure in Indonesia comes from the central government. Although states appropriate a large proportion of the funds for urban infrastructure investment in India, they are reimbursed for up to 70 percent from federal government grants. In Bangladesh and China, most of the funding for urban services and infrastructure comes from the national government either through direct expenditures or through transfers (Mathur, 1987).

In many West African countries, the patente--a form of licence fee levied on most professions, businesses, industries and traders--is a major source of municipal revenue that is assessed, collected and allocated by the central government. The patente is calculated using complicated formulas based on the type of economic activity being performed, the size of physical plant and the rental value of the premises. In many francophone African countries, even elected local governments are perceived as agents of the central government, which takes primary responsibility for collecting local taxes, sharing the revenues with localities, and supervising local expenditures (You and Mazarelle, 1987).

A system of intergovernmental transfers through grants from national to local governments is usually justified by the need to account for spillover effects and the desire to maintain some degree of fiscal equity among local jurisdictions (Bird, 1984). Spillovers arise from the fact that public services provided in one local jurisdiction often result in external benefits or costs for residents of other localities. Industries in one city, for example, may pollute the air or water in other cities, generating costs of control or clean-up for residents of cities that do not collect taxes from the polluting industry. Roads and streets built and maintained by one city give access to many people living outside the city. Students educated in city A may move to city B later providing it with the benefits of an educated or skilled worker whose education was paid for by taxes of city A's residents. Intergovernmental transfers can help compensate localities for these externally imposed costs.

The equity problem arises from the fact that in all countries local jurisdictions have widely varying tax bases and abilities to raise revenues. Grants or other intergovernmental transfers allow all localities to provide some acceptable minimum level of services or an "average" level of services, despite their differences in revenue raising capacity due to differences in population size, location, costs of service provision or the economic characteristics of their residents.

To deal effectively with the problems of equity and spillovers, a government with a broader jurisdiction and a larger tax base than those of local governments must be able to collect and redistribute revenues.

There are several advantages to the use of grants or subsidies (Bird 1984; Hatry, 1983):

- Although the granting government's costs increase by the amount of the grant or subsidy, they are usually less than the full cost of providing services and facilities directly.

- Grants can be used to induce other levels of government or nongovernmental organizations to share some of the costs or to provide services that otherwise would have to be provided by the level of government providing the grant.

- Some grants and subsidies allow local governments or private organizations to provide services at lower costs to consumers, thereby extending access to poor households.

- If grants and subsidies are used to allow more service providers to offer goods or services, they may increase competition in service provision, expand choice and lower costs for consumers.

- Intergovernmental transfers allow central governments to collect those revenues that they can raise more efficiently because of their larger jurisdiction, and to share the proceeds with localities.

- Grants can be used to assure the survival of local units of government or administration that might not be able to finance their operations entirely from local revenues, no matter how efficient they may be in taxing local resources.

Grants and subsidies also have some potential disadvantages:

- In many cases, they allow the granting organization to exert strong controls and restrictions over the organizations that receive them. Local governments or nongovernmental organizations that receive large amounts of grants and subsidies may become dependent on them and subservient to the granting organization.

- When grants become too large a percentage of local revenues, local governments have little incentive to expand their own revenue bases.

- Grants and subsidies may also prolong inefficient operations by organizations receiving them or encourage monopoly conditions if the subsidies drive out of the market organizations that do not receive them. Analysts in the World Bank (1988) observe that grants pay the salaries of nearly all local government employees and primary school teachers in Indonesia and Sri Lanka, allowing a uniform pay scale throughout these countries, but in so doing encourage inefficient management and the employment of larger numbers of personnel than are needed.

Moreover, "the experience of several developing countries including Colombia, Ecuador, and Mexico, reveals that increasing reliance of local governments on grants can decrease the fiscal autonomy of local jurisdictions," World Bank (1988: 165-166) officials point out. "Local governments come to view grants as substitutes for local taxes and user charges." As a result, the provision of services at the local level may decline drastically when higher levels of government reduce transfers or when grants are poorly administered.

In Nigeria, local government revenues from internal sources dropped from 75 percent of total local government revenues in 1962 to about 19 percent in 1983 as local governments came to depend on transfers from the federal government for more than 70 percent of their income. But the grants administered through state governments often were not passed through to local governments or were used by the states without consulting local authorities. Some states shifted responsibilities for services to local governments without providing grant funds for them to provide and maintain those services. This led to a rapid decline in the level of local

services. In response, some state governments then took over the services of local authorities and the responsibility for local revenue collection. When grants became a significant source of local government income in Nigeria, some states abolished traditional local taxes. This left local authorities with little or no own-source revenues and relegated them to a minor role in local governance (Olowu, 1988). In his study of the revenue position of local governments in Nigeria, Smith (1982: 9) concluded that "the shift in the nature of local financial dependence increases local government's vulnerability to central domination. This is not just a matter of formal administrative controls over grant aided expenditure. The center's influence on local fiscal and policy outcomes may also arise from the unintended consequences of central involvement in local government revenue provision."

Given the nature of changes in public finance and the increasing pressures on central governments to reduce their expenditures, however, policy analysts must assess more effective means of promoting intergovernmental transfers in the form of block grants, vouchers, special purpose grants and unrestricted local budgetary support to encourage local governments to raise larger amounts of revenues at the local level. A driving force behind decentralization movements today is the need to reduce the level of transfers from central to local governments and the subsidies to parastatal service delivery agencies. Policy analysts should pay special attention to innovations that attempt to use transfers to stimulate greater local self-sufficiency, such as the program for the Calcutta Metropolitan region or the tax-sharing plan in Colombia.

In India, the State of West Bengal enacted a Revised Grants Structure (RGS), which has been in operation since 1983, to encourage local governments in the Calcutta metropolitan area to increase their own revenue collections and reduce their dependence on intergovernmental transfers as a condition for receiving capital assistance grants. Through tax sharing, the State government helps bridge the budgetary gaps of urban local governments according to established fiscal norms. But local governments failing to improve their fiscal performance can have their capital assistance suspended until it conforms to the norms. If local governments reduce their budgetary gaps as a result of fiscal performance that exceeds the norms, they receive a reward equivalent to the amount by which the gap is reduced (Banerjee, 1986).

In Colombia, Law 12 requires the central government to share half of the national sales tax with municipalities. The tax sharing program is designed to increase the percentage of the proceeds going to municipalities incrementally from a total of 30.5 percent in 1986 to 50 percent in 1992. A portion of the proceeds of the national sales tax is distributed according to the population size of the municipalities, but an additional portion goes to municipalities with populations of less than 100,000 based on the value of revenues collected from real estate taxes during the previous year. The latter allocation encourages municipalities to up-date

their cadastres and property registration records and to increase their real property tax collections in order to obtain larger amounts of shared taxes from the national government.

Although intergovernmental transfers are likely to remain an important source of funds for urban service and infrastructure investment in many developing countries for the foreseeable future, the central issue is how to arrange the necessary central government support for specific types of urban services and facilities so that the local community retains the sense of ownership and responsibility for maintenance. One instance where this was done has been in an urban development project in the city of Tamale in northern Ghana where slum upgrading was undertaken with U.S. Agency for International Development and national government assistance (Brown and Siita, 1984). The outside aid to the District Council was limited to provision of technical assistance and some earth moving equipment and materials which could not be secured locally. The local council had to demonstrate that it could generate sufficient local revenue to operate the program, provide all local labor, fuel and local construction materials. In order to generate revenues to keep the program running, the council rents out the earth moving equipment 50 percent of the time on a fee basis. The remainder of the time, the equipment is used for construction and maintenance work on slum upgrading and other local government projects. The local council also requires some donations from communities in which road building is carried out (the amount is negotiable but something is collected from even the poorest areas). The local council has never viewed the roads, drainage ditches and water lines that have been constructed as central government or AID property, even though the outside assistance was critical in building them.

A case can also be made for establishing cooperative financing or revolving loan funds through transfers or grants from the central government to provide subsidized services for the poorest urban households. In the short run, however, there may be no alternative for many of the urban poor in developing countries to receiving highly subsidized social services, especially those that can increase their productivity and that expand human capital for economic development. In these cases, policy analysts must assess the potential of improving the efficiency and effectiveness of the intergovernmental transfer system.

4.4 EXPANDING LOCAL GENERAL REVENUES

One precondition for a decentralized system of urban service and infrastructure provision is a sound and viable local revenue base through which local governments can generate adequate financial resources. Policy analysts must assess the potential for expanding local general revenues as a feasible financial arrangement for decentralization.

In most developing countries, there is considerable scope for improving the effectiveness of local tax collections and improving the efficiency of expenditures in public sector agencies. Municipalities have been granted the authority to collect a wide variety of taxes and fees. In Asia and Latin America, property taxes on building and land tend to be the most frequently used instruments for raising revenues. In the Philippines, the property tax accounts for more than two-thirds of local tax revenues and it plays a strong role in the revenue systems of China, India, Korea, and Pakistan. But nonproperty taxes--in the form of motor vehicle transfer taxes, acquisition taxes, business taxes, land development fees, entertainment and amusement taxes, and octroi--also yield significant local revenues in countries like Thailand, Pakistan and Indonesia (Prakash, 1988).

One of the strongest potential sources of financing urban development activities in most developing countries, and especially in those where cities are growing economically, is the property tax. But in reality, the property tax remains a limited source of revenues for Third World municipalities. In a study of 25 cities in developing countries, the World Bank (1988) found that the property tax yielded only 5 to 25 percent of local government recurrent receipts. Moreover, property tax receipts declined in real terms during the 1980s in more than half of the countries in Latin America and Asia, and especially in those with high rates of inflation.

Throughout the developing world, municipalities face difficult problems in collecting property taxes because of administrative weaknesses and because of central government controls on its use. In much of francophone Africa, central governments retain responsibility for local tax assessment and collection; and in much of East Africa central or state governments have strong influence over local property rates. In Nigeria, for example, where local property tax rates are set by or with the approval of state governments, they are usually set so low--for political reasons--that they do not generate enough revenues for local governments to spend much time or effort pursuing collection seriously. The revenue yield is low, in addition, because of inadequate property records. Large amounts of property are unregistered and much of the development that occurs on urban land is done illegally. Few Nigerian cities have accurate tax maps or cadastres, or up-dated valuation lists (Opkala, 1983).

In Senegal, only about 20 percent of the taxpayers regularly meet their obligations, and payments can be recovered from many others only by issuing summonses, a costly and time consuming procedure (You and Mazarelle, 1987). In Nigeria, as Opkala (1983: 10) points out, "owing to the relatively low level of awareness and civic responsibility, the general public is strongly resistant to and uncooperative with property rate collection, as with other charges." One of the reasons for the hostility toward tax collection in Nigeria, as in many other developing countries, is that urban residents do not believe that they are getting the amount and quality of services for which they are paying.

Moreover, even where it is a major source of local government revenue, a poorly conceived property tax system can adversely affect urban economic development (Netzer, 1968). When the tax is assessed on the improved value of residential property, for example, it becomes similar to a consumption tax on housing expenditure, and thereby reduces consumer demand for housing. It can also discourage housing improvements and maintenance by landlords and low-income families. The tax can also be quite regressive with respect to personal incomes, again a disadvantage for lower and middle income families. In large metropolitan areas, in which there may be many local jurisdictions with different property tax rates, the diversity may encourage urban sprawl as richer families and businesses seek to locate in places with tax advantages.

A number of arguments are offered for switching the basis of property taxes from building value to land value. This would offset to some extent the disincentive created by building-value taxes to constructing or improving housing. It would help capture some of the surplus value attributable to public services and improvements. It would encourage savers to accumulate wealth in forms other than land by reducing its market value. By taxing the capacity of land to produce revenue it would encourage owners to develop land that is already serviced rather than building on unserviced property (Shoup, 1978).

The more serious difficulties of expanding local revenues for urban development activities, however, lie in the severe restrictions most central governments place on local governments in raising revenues and in the weak administration of local taxes throughout the developing world. Smith (1982: 9) points out that in Nigeria the central and state governments "have always endowed themselves with an impressive range of administrative controls over revenue raising by local governments, though these have seldom worked to secure effective local administration. All revenues require central authorization before they can be collected," he notes. "Central approval is required before any levy can be included in the revenue estimates of a local council."

Brazil offers another typical example of the difficulties of expanding local general revenues in developing countries. In Brazil's federal system of government municipalities are allowed to provide a wide range of public services. Indeed, states can provide any service not forbidden by the national constitution. Municipalities engage in many activities that are also carried out by the states and the federal government because functions are not strictly assigned among levels of government. But the Brazilian constitution limits the tax base of municipalities to two sources of revenue--urban property taxes and service taxes. The municipalities are limited in their property taxing powers to levies on "urban land" and buildings. Urban land is defined by the federal government as lots provided with at least two municipal services. The service tax is a levy on all workers who perform any type of service specified by the central government, which also sets the maximum rates that municipalities can collect (Mahar and Dillinger, 1983).

Even for those sources of revenue that municipalities do control, however, the tax administration and collection system is extremely inefficient. Mahar and Dillinger (1983: 25-26) describe problems in Brazilian municipalities that are not unlike those plaguing municipalities in many other Latin American countries:

> The low yield of the property tax is, to a large extent, attributable to poor tax administration. Property cadastres often fail to include recent subdivisions, building improvements or new construction, and land and building assessments are frequently years out of date. ... Uncollected tax bills also reduce the effective revenues from the property tax. ...Revenues are kept low for political reasons. Nominal tax rates are typically 1% on land, and 0.5% on buildings. The ratio of assessed value to market value is often deliberately kept low, if it is known at all, resulting in effective rates of taxation of a few tenths of a percent.

As a result of the wide range of services they provided and the severe restrictions on their revenue raising and borrowing capacities, municipalities in Brazil are always in a financial squeeze. The federal government must usually fill the fiscal gap through revenue sharing and grants, many of which are "earmarked" for particular uses that are heavily regulated.

In many other countries, inefficient land registration systems, outdated cadastres and inefficient assessment practices, along with inadequate tax enforcement and collection, mean that most municipal governments receive only a small portion of the potential revenues they could generate if their tax assessment and collection systems were efficiently administered.

Myriad problems plague the real property tax system in the Philippines, for example, that arise from weaknesses in both the tax base of municipal governments and the management of the local tax collection system (Panganiban, 1982). The tax base of nearly all municipalities is weak because of widespread poverty. But municipalities must share with the central government the limited revenues derived from real property taxes. Moreover, the assessment system allows exemptions for many types of properties. The tax base is further eroded by ineffective valuation techniques, assessment deficiencies, and inaccurate determination of collectibles in most municipalities. Collections are low because of serious problems in administration of the real property tax by local officials. Property transfer records are poor in most municipalities, which lack qualified personnel for assessment and collection. Rarely is legal action taken against delinquent taxpayers. Most municipalities have poor property tax record systems and property ownership transfer recording procedures. There is widespread political interference in tax collection and enforcement. As a result of all of these problems the attitude is widespread among property owners in the Philippines that the system of real

property taxation is unfair, inequitable and unenforceable, leading to low levels of payment.

Similar problems of municipal tax administration can be seen in Colombia. Although most of the larger secondary and intermediate cities in Colombia have rather high levels of municipal management capability by Latin American standards, the efficiency of municipal financial administration is still inadequate in most. In Baranquilla, for example, it is estimated that the municipality is collecting taxes on less than 50 percent of the taxable property. Only 3 of the 10 districts of the city have updated cadastres, and only about 30 percent of the city's potential business and industry taxes are actually paid each year (Rondinelli, 1986a).

The hundreds of small muncipalities in Colombia have very weak or inadequate municipal administrative and financial management capabilities. Law 12 now requires municipalities to upgrade their cadastres and to improve tax collections, but it is not clear how many of the smaller municipalities will find the trained people and resources to do either. The institution responsible for cadastres in Colombia has been able to do only 5 to 10 percent of the estimated 5 million properties that must be surveyed. The Institute is experimenting with property class type cadastres rather than individual property surveys, but still estimates that with existing resources it will only be able to cover about one million properties (Rondinelli, 1986a).

The strong pressures of population growth and economic expansion during the 1990s will create an urgent need to improve the ability of municipal officials to project more accurately their debt and borrowing capacity, to establish more clearly the available margins for investment after provisions are made for operating costs, to manage their debts more efficiently and to upgrade cadastres in order to increase their property tax revenues. These changes in local tax administration are urgently needed in most developing countries before municipalities will be able to expand local general revenues sufficiently to support the decentralization of urban development programs.

4.5 EXPANDING MUNICIPAL BORROWING CAPACITY

Borrowing is another source of financing for urban services and infrastructure investment that analysts of decentralization policy should assess carefully. Prudent borrowing can be an effective way of mobilizing capital for infrastructure and facilities, especially when user charges or fees can be levied to recover costs. But local governments in developing countries have been severely restricted in their borrowing capacity by central government regulations and by weak financial markets for municipal securities.

In most developing countries central governments strictly regulate and limit the ability of lower levels of government and administration to borrow. Until recently, for example, local authorities in Nigeria have been restricted in borrowing by the central government because of federal officials' fear that excessive borrowing would result in such high levels of recurrent costs and debt servicing that local revenues could not sustain them. Only the largest, most financially viable local authorities were allowed to take loans for capital investments (Smith, 1982). In Brazil, the federal government sets strict guidelines on both the amount of debt and the amount of debt service that municipalities can incur. A municipality's total debt may not exceed 70 percent of its total revenues for the previous year; the amount of debt that can be incurred in any given year cannot exceed 20 percent of its total revenues for that year; and debt service cannot exceed 20 percent of the previous year's total revenues (Mahar and Dillinger, 1983).

But central governments in an increasing number of developing countries are recognizing the need for expanding the borrowing capacity of local governments so that municipalities can more effectively meet the growing demand for urban services and infrastructure. The primary means is through the creation of municipal development or urban infrastructure development financial institutions. These municipal development financial institutions are seen as mechanisms for consolidating fragmented capital markets in developing countries and increasing the supply of capital needed for services and infrastructure in urban areas. These financial intermediaries can reduce the overall cost of capital through economies of scale and by offering a diverse portfolio of financial issues of different types, sizes and maturities. In most countries, municipal development financial institutions have greater flexibility and creditworthiness than local governments. Many of the intermediaries not only offer credit, but also technical assistance to improve the management of investment projects and municipal administration generally. In addition, even those municipal development financial institutions that obtain their capital from the central government can place the intergovernmental transfer relationship with local governments on a more businesslike basis and can create a stronger sense of responsibility in municipal officials to repay their loans. Finally, these intermediaries can provide a means of involving the private sector in financing public services and infrastructure (Clarke, 1982).

Increasingly, international donors such as the World Bank have been providing loans for seed money to establish or stabilize urban development financial institutions. In Mexico, the World Bank is assisting the National Bank of Public Works and Services (BANOBRAS) to extend both credit and technical assistance to cities and towns for infrastructure investment (World Bank, 1987). In Brazil, the State governments of Santa Catarina and Parana have set up loan funds from which towns that meet creditworthiness standards can borrow money for local investment projects. The towns must be eligible for loans within the Brazilian government's debt service restrictions. They must have a satisfactory investment plan and be willing

to accept technical assistance to find ways of increasing local revenues to pay for the new investment and for the recurring costs. The Autonomous Municipal Bank (BANMA) in Honduras provides capital financing, especially for pilot infrastructure projects, and technical assistance to help municipalities improve their financial planning, budgeting and revenue collection.

The government of Nigeria, with assistance from the World Bank and local merchant banks, created an Infrastructure Development Fund in 1987 to help state governments finance urban investments. The IDF uses Nigerian merchant banks as intermediaries to co-finance projects by mobilizing resources from local capital markets and to assist in project identification, management and monitoring. IDF lends funds to the merchant banks from which states borrow for municipal infrastructure improvements. The World Bank provided seed money to IDF and supported training for the staff of merchant banks in the basics of municipal engineering, local government finance, property valuation and taxation, and institutional development so that they could more effectively supervise the loans and assist municipalities with implementing the investment projects (World Bank, 1988).

Funding for municipal or urban development funds comes from a variety of sources. In Colombia, Costa Rica, Guatemala, Honduras, Kenya and Venezuela, the central government provides grants and loans or raises special taxes to capitalize these funds. In Brazil municipalities use pension or social security funds as a source of capital. The municipal development fund in Honduras sells securities to other financial institutions. Deposits are an important source of capital mobilization for municipal development financial institutions in Niger, Thailand, Tanzania and Turkey (Clarke, 1982).

Although municipal and urban development funds can perform important roles in mobilizing capital for local government investments, they also have potential disadvantages. In some of the more economically advanced developing countries, these institutions could displace or inhibit the expansion of private financial markets in providing capital to the public sector. In countries where the central government is the principal source of funding for these institutions, the financial intermediaries may simply serve as an instrument of intergovernmental transfers rather than as a mobilizer of new capital resources. In many countries, the operation of the municipal development funds has been plagued with problems, undermining their role in expanding municipal borrowing capacity. Lending by BANOBRAS in Mexico, for instance, has been limited by extremely slow bank procedures and by very conservative approval criteria. During the early 1980s, the bank took from 11 to 24 months to approve loans, discouraging local elected officials--who were limited by law to three years in office--from even applying for loans. The delays increased the costs of projects during a period when Mexico's inflation and interest rates were high. Moreover, borrowers were faced with a complicated set of lending structures and terms. From 40 to 50 different variable interest rates applied to

different types of loans (World Bank, 1987). In Honduras, the Autonomous Municipal Bank faced rapid decapitalization in the early 1980s when many municipalities, including the capital city, fell into arrears. BANMA had to be restructured with assistance from the World Bank, and its lending and repayment procedures had to be revamped completely. Clarke (1983: 7) points out that "success of such institutions hinges fundamentally on the degree of government commitment to the concept of decentralized management. Often such commitment is not authentic."

4.6 EMPLOYMENT GENERATING SERVICE PROVISION

In the long term, one of the most important ways that local governments can finance the expansion of urban services and facilities, especially for poorer households, is to promote employment generation programs that allow the poor to raise their incomes sufficiently to create greater effective demand. Although there is often an inadequate supply of basic services for the urban poor, the solution may not be entirely on the supply side. A more effective solution may be found in raising the low levels of effective demand among the poor by raising their incomes. This would allow them to obtain services through a variety of sources in both the public and private sectors.

One approach to raising effective demand is by organizing municipal service delivery to poor neighborhoods in a way that generates as much employment among the beneficiaries as possible. This is the essence of UNICEF's (1982) basic services strategy. It attempts to improve services in urban areas while at the same time building the skills and raising the incomes of people--and especially of women--living in the neighborhoods where the services are delivered. Neighborhood women are trained to help run day care and preschool centers, and community residents are trained as paraprofessional health workers to staff neighborhood clinics or family planning centers.

Another approach is to develop programs that increase the capacity of the informal sector to provide appropriate services, build low-cost housing, or provide construction materials for shelter and infrastructure. The informal sector provides an important source of income for many urban households in developing countries, and with proper support could provide many basic public services in low income neighborhoods. As noted earlier, some forms of housing improvement, small-scale transport, water supply and public safety could be provided through the informal sector at a lower cost than by municipal governments.

Employment can also be generated for the poor by developing service extension projects that include components for the participation of small-scale industries, and offering assistance that will expand small-scale enterprises in and near poor neighborhoods. Community facilities such as clinics, hospitals, prenatal and child care stations, and elementary schools, for example, could be planned so that they can use indigenous

materials and components, such as pipes, electrical accessories, cement blocks, bricks and lumber, which can easily be produced by small-scale enterprises in the area where the facilities will be constructed, and that use local contractors and labor wherever possible (Rondinelli, 1986).

The promotion of--or at least the elimination of regulations and restrictions against--informal sector activities could provide a larger source of income by which poor households can obtain the resources neeeded to engage in self-help service improvement projects in poor neighborhoods.

4.7 EXPANDING FINANCIAL RESOURCES THROUGH COST REDUCTION

Little attention is usually paid to local government expenditure efficiency in developing countries, although it is as critical as revenue raising in generating financial resources for urban development investments. The bulk of local government expenditures in almost all developing countries goes for personnel costs, and much of that labor expenditure is unrelated to the provision of services (McCullough et al., 1982; McCullough and Stuebner, 1985). In addition to improving the capacity and efficiency with which national, metropolitan and local governments deliver urban services, governments in developing countries can also develop programs that lower the costs of infrastructure and services by changing land use, construction, and service delivery regulations to make them more appropriate to developing country needs.

4.7.1 Adjusting Regulations, Controls and Standards of Service

Inappropriate government regulations, controls, incentives and methods of service delivery often increase the costs of providing urban services and reduce the access of urban households to them. One observer points out that in order to get approval for low-cost housing developments in Egypt, the units have to meet high standards imposed by planners or by housing authorities through building codes and materials specifications: "the result is high payments either for building materials, labor expenses or planning permission. ... All of these standards are considered an economic barrier facing the urban poor in housing themselves and beyond their ability to pay" (Soliman, 1986: 81). The costs are inflated even more by the fact that the standards adopted in building codes often require building materials must be imported.

The ability of the private sector to provide adequate housing in Kenya is also severely restricted by building codes and regulations on construction standards. The high standards now place housing out of the reach of the large majority of low-income families. If the high standards were to be enforced rigidly, the government would have to provide substantial subsidies in order to reduce dwelling costs to a level that the poor, or even much of the middle class, could afford. A study of Kenya's housing situation (Rourk and Roscoe, 1984: ii) points out that "...a nationwide housing program could be feasibly implemented in Kenya if statutory housing

standards were significantly reduced." Housing constructed to lower, but still safe standards, would make shelter affordable by "about 75 percent of Kenya's population without subsidies of any kind, and would reduce the level of subsidies required to satisfy the basic shelter needs of low income families to a small fraction (4 percent or less) of public sector capital expenditures."

The costs of housing and public services for low-income urban families can also be reduced by using different standards of service provision for different groups of the poor. Only basic standards for services, facilities and infrastructure may be practical in the poorest neighborhoods. As incomes increase or needs expand, such services can be upgraded gradually. Different standards of cost recovery might also be applied to off-site and on-site improvements in sites-and- services schemes. Higher off-site charges can be used to subsidize the costs of on-site services.

The costs of extending services can be reduced if they are designed for multiple purposes, including employment generation, and modified in ways that are tailored to local needs and to the ability of poor communities to support them. A good deal of evidence suggests, for example, that basic health services can be provided at much lower costs in urban settlements by converting from delivery systems that are exclusively or primarily curative to those that place greater emphasis on disease prevention and health maintenance. Substantial savings could be realized by giving greater emphasis to community and neighborhood clinics with modest equipment and staff, mobile service delivery units, regular health surveillance within communities through schools or recreation programs, preventive innoculation and vaccination drives, assistance to community groups in improving nutrition, family planning and maternal and child health care. Many of these services can be provided at much lower costs if they are offered by para-professionals recruited from poor communities rather than by physicians and nurses.

4.7.2 Controlling Land Speculation and Land Costs

In many Third World cities stronger controls or regulations on land speculation could reduce or at least moderate the increases in the costs of providing services to the poor. Moreover, there are innovative ways of developing cities or of delivering services that could substantially lower the costs of and increase poor residents' access to services.

Rapidly rising land prices due to land speculation drive up the costs of urban service provision and price low- and middle-income families out the market for many public services. The explosive costs of land in many Third World cities has not only made it difficult for lower income families to obtain decent housing in urban centers, where many have jobs or are engaged in informal sector activities, but has driven many low-income residents from the core of cities to their peripheries. The separation of living and work areas not only places an increased strain on transportation services,

and raises the costs to the poor of commuting, but also substantially increases the costs of extending services to peripheral neighborhoods and communities where the poor live.

The difficulties of controlling land speculation in Third World cities, however, are numerous and complex. In most developing countries land speculation is often a good hedge against inflation, monetary devaluation, and economic fluctuations for the wealthy, and thus they generally resist attempts to limit or constrain it. But rapidly rising land values increase costs for small enterprises in cities, push people from the center to the fringes of urban settlements, accelerate the conversion of agricultural land to urban uses, promote sprawl, and increase the costs of acquiring rights of way for public utilities and property for schools and other social service facilities.

4.7.3 Reducing Land Acquisition Costs for Public Services

Local governments can also reduce costs--and thereby make more funds available for new investment--by reserving the land that will be needed in the future for urban services and facilities before inflation or speculation increase costs. In most developing countries, land acquisition costs are among the most expensive components of infrastructure and service provision. Among the ways that governments in developing countries can acquire the land needed for shelter, infrastructure, and services are through purchase in advance of need and land banking. Land can be acquired in advance of need by purchasing it from private owners or exchanging land with other government agencies.

Local governments can also acquire leasehold interests and options to buy. They can adopt and enforce appropriate land use regulations and controls to assure that adequate land will be available in the future for infrastructure and services in areas of the city that are beginning to develop rapidly or to high levels of density. Land readjustment programs that take a portion of property from private developers to recover the costs of service provision or to use for infrastructure or public facility construction are another means of reducing costs. Local governments in most developing countries can condemn privately held land and compensate owners to acquire the sites needed for public facilities and infrastructure. Finally, national and local governments can provide tax advantages or exemptions to land owners who make gifts, contributions and donations of land for public services.

4.7.4 Guiding Population to Secondary Cities and Towns

A more indirect, but potentially important, alternative for reducing the costs of providing services and infrastructure is to develop programs that encourage migration to small or intermediate sized cities where per capita costs of service provision may be lower than in large metropolitan areas.

Urban services, facilities, and infrastructure can often be provided economically and efficiently in cities as small as 75,000 to 100,000 in population. In many countries the per capita costs of providing most municipal services is lower in small- and medium-sized cities than in the largest metropolitan areas. The costs of providing many urban services in developing countries follow a U-shaped curve, declining with population size to about 75,000 or 80,000.

For example, in Pakistan the average per capita cost of providing administrative services, bulk water supply and commercial infrastructure in Karachi is about Rs. 63,000. In cities of from 500,000 to 1 million population, the costs are lower. They drop to Rs. 38,000 for cities in the 50,000 to 100,000 population size category. Similarly, the per capita cost of trunk infrastructure in Karachi is about Rs. 37,000; it drops to Rs. 10,000 for cities with populations of one half million to one million and to Rs. 5,400 in cities with populations of 50,000 to 100,000 (ADB, 1986).

Studies indicate that to promote a more balanced distribution of urban population requires the creation of employment in intermediate and small cities. One means of doing this is through investment in public services and infrastructure that support productive activities and in agricultural processing industries and commercial enterprises (Rondinelli, 1983).

CONCLUSIONS

In brief, any attempt to assess the feasibility of decentralizing urban development activities must take into account alternative financial arrangements. In most developing countries, decentralization policies and programs must be accompanied by financial reforms. Programs are needed to improve the intergovernmental transfer system, expand the capacity of local governments to recover costs, and raise general revenues, and provide greater flexibility to borrow funds.

CHAPTER FIVE

ANALYZING ORGANIZATIONAL ARRANGEMENTS FOR DECENTRALIZATION

Selecting appropriate financial arrangements for urban development activities is crucial to the success of decentralization, but policy analysts must also identify and assess the most effective organizational arrangements.

It was argued in Chapter 2 that three major forms of administrative decentralization should be analyzed: deconcentration of central government ministries and agencies; delegation to public enterprises, corporations or authorities; and devolution to local governments. Privatization or deregulation is another organizational arrangement that should be assessed. Within these broad categories, the organizational arrangements available to decentralize urban development programs include:

- Subnational administrative units
- Municipal and local governments
- Public enterprises
- Market surrogate arrangements
- Assisted self-help programs
- Cooperative or membership organizations
- Public-private partnerships
- Performance contracting
- Private businesses and informal sector organizations

Each of these organizational arrangements has strengths and weaknesses that and this chapter explores in detail.

5.1 SUBNATIONAL ADMINISTRATIVE UNITS

There are organizational arrangements that can help to make service delivery more responsive to users' needs, and the delivery process more efficient and effective, even for those urban services and infrastructure that must be provided by central government ministries. The weakest form of decentralization, but an important step in highly centralized countries, is to deconcentrate central government institutions. In highly centralized governments even shifting workload can be a crucial first step that allows agencies to learn to be more responsive and that can lead to greater decentralization later. More extensive forms of deconcentration include creating field offices for national agencies and establishing local or provincial administrative units (Rondinelli, 1981).

Most governments in developing countries began in the early 1970s to deconcentrate by establishing field units for central ministries and by creating provincial, district and local units of administration. In Thailand, for example, each central government ministry has offices at the provincial level under the supervision of governors and district officers appointed by the central Ministry of the Interior. In the Philippines, the National Economic and Development Authority, which sets priorities for investment in urban areas, is deconcentrated into regional units. In Indonesia, the National Economic Planning Board operates through provincial planning boards that prepare urban and regional development plans and investment programs for funding by the central government (Mathur, 1983).

Most francophone African countries have subnational departments and commune that are supervised by central ministries. Most anglophone African countries have provincial and district administrative units to carry out the policies of central government ministries and agencies. Zambia, for example, adopted a Local Administration Act in 1980 that provided for integrated local administration in provinces and districts, which encompassed former city and municipal administrative units. Provincial and district councils were made up of both appointed and elected officials. Senior members of the councils were appointed by the central government and candidates for elected seats had to be members of the ruling political party. The District Councils were given responsibility for formulating district development plans, preparing budget estimates and accounts and ensuring efficient operation of all public institutions in the district. The District Councils could set property rates, license fees and user charges for services, issue stocks and bonds, mortgage council property and obtain domestic loans. However, local budgets had to be approved by the central government (Rakodi, 1988).

The creation of a system of field administration in developing countries can have substantial advantages over central administration (Smith, 1967):

- It allows central ministries to focus their activities on the particular conditions and needs of different regions or areas of the country and to obtain the information needed to develop appropriate policies and programs.

- In countries with poor communications systems, field offices are essential if ministry staff are to interact with local officials and citizens and to coordinate activities at the local level.

- Field administration brings specialized technical expertise and management capacity that may not be available in local governments.

- When they operate effectively, field offices can extend the coverage of services and facilities to a larger number of citizens more effectively than if the services were provided only from the center.

Field administration also has potential disadvantages (Esman, 1981; Smith, 1967):

- Field positions are often considered by both ministry officials and field officers to be less desirable posts than those in headquarters.

- Field officers are often more concerned with being transferred or promoted to a headquarters position than with fulfilling their responsibilities most effectively at the local level.

- In some Asian and many African countries, field officers lack adequate training, are poorly supervised and lack access to sufficient resources to perform their duties efficiently. Many fail to develop good relationships with their clientele.

- For these and other reasons, central ministry officials in many developing countries are reluctant to transfer authority or resources to field officers, thereby undermining the capacity even of well qualified and highly motivated field staff to perform their functions effectively and expeditiously.

- Jealousies and conflicts can arise between field officers of national ministries and local officials and political leaders that can delay action or prevent services from being provided at all.

- Field administrators who are either in conflict with local leaders or who have substantial amounts of resources at their disposal can also weaken well-established capacities for collective action at the local level or prevent those capacities from developing.

- Often the field units of different ministries pursue their own policies with little coordination among them and sometimes in ignorance of each others' activities. This problem is exacerbated when central ministries and agencies use different geographical boundaries for their field offices. In some cases, field officers must respond to local pressures instead of carrying out central directives. Smith 1967: 9) points out that "the practice of field administration may deviate considerably from the intentions of the government establishing it, under political pressures of various kinds which sever the chain of responsibility between the center and the field."

In any case, subnational units of administration are essential to deconcentrating the authority and resources of central ministries when other forms of decentralization are inappropriate or infeasible.

5.2 PUBLIC ENTERPRISES

Delegation of responsibilities from central government ministries to public corporations or state-owned enterprises is another organizational arrangement for decentralizing urban development activities. Public enterprises are usually distinguished from regular government agencies by their separate legal identity and corporate structure. They are expected to earn most or all of their revenues from the sale of goods and services, and thus are called "off-budget" organizations in some countries. They are expected to price their goods and services at levels that recover investment, operating and maintenance costs. Thus, they must operate much like private corporations. They usually have a great deal of autonomy in their operations, although central governments in some countries exercise strong supervision over them (Shirley, 1983).

The creation of state enterprises to provide urban services and infrastructure was part of a broader movement during the 1970s, especially in Latin America, to use government controlled corporations to produce a wide range of goods and services. In Brazil, Venezuela, Chile, Peru, Argentina and Mexico, nonfinancial state enterprises were producing 15 to 20 percent of gross domestic product by the early 1980s (Ramos, 1987). Public corporations or state-owned enterprises are prevalent in Asia, Africa and Latin America in sectors that are natural monopolies, that provide goods and services considered to be politically important, or that exploit natural resources over which the government wishes to maintain control. Public enterprises also operate in sectors in which the private market is weak and in which the government wishes to ensure widespread and reliable service provision. In countries where the government is ideologically opposed to a strong private sector or where the government is suspicious of big businesses, state-owned enterprises have been created to displace or prevent the development of private enterprise.

In urban areas, public corporations and state-owned enterprises frequently provide transport, communications, electricity, gas and water services that require large "lumpy" capital investments for which financial resources are usually difficult to obtain through regular government budgets. Private enterprises may not be willing to risk investments in services from which they may not be able to make an acceptable level of profit. Usually, in these situations, they leave investment to the public sector. In countries with strong industrial development programs, such as South Korea, public corporations were formed to overcome market imperfections and to prevent or alleviate bottlenecks in the provision of urban services and infrastructure required to support industrial expansion.

5.2.1 Regional Development Corporations

In many developing countries public enterprises and public corporations have been established as regional development authorities. There is a growing acceptance within the government in Colombia, for example, of the need for regional planning to develop secondary and intermediate-sized

cities (Rondinelli, 1986a). The diversity of regional economic, social, and physical characteristics in Colombia makes it difficult to plan effectively from the center, and requires a process of development planning that promotes regional comparative advantages and tailors investments to regional conditions and needs. Metropolitan planning agencies department (equivalent to state governments in a federal system) planning offices and Autonomous Regional Corporations (Corporaciones Autonomas Regionales) have been established in most parts of the country.

In 1985, the central government created a regional planning corporation for the Atlantic Coast in order to plan the region's development in a more coherent fashion. Funding comes from a percentage of the proceeds of coal extraction being done as a joint venture between the government and a foreign multinational firm. Similar autonomous regional corporations have been created in the Cauca Valley (Corporacion del Valle de Cauca, or CVC) , to plan for the integrated development of the Pacific Coast, and in the Oriente Antioqueno near Medellin (Corporacion Autonoma Regional Rionegro-Nare, or CORNARE.) CORNARE, modelled on the Tennessee Valley Authority, receives a percentage of the revenues from one of the largest hydro-electric projects in the country to plan for the social and economic development of the region. CORNARE's jurisdiction includes 25 municipalities, more than 500,000 residents, and 809,000 hectares of land. CORNARE is engaged in studies of the impact of development on the natural resources of the area, on ways of protecting the environment of the region, of ways of promoting agriculture in rural areas and, of industrial and tourist development in cities and towns. It also sponsors programs that encourage regional cultural activities. CORNARE is also heavily involved in programs to promote reforestation in the region. In all of its planning and development activities, CORNARE emphasizes widespread community participation and consultation (Ramirez, 1986).

Given the economic, social and physical heterogeniety of Colombia, regional planning and development corporations are likely to become more important in the future. Not only are they necessary to deal with the unique problems of cities and towns in regions with untapped economic and natural resources such as the Llanos and the Pacific Coast, but they are seen as instruments for decentralizing planning and administration as well. The legislation establishing the Corporaciones Autonomas Regionales notes that they are to be mechanisms for administrative decentralization and regional autonomy.

5.2.2 Special Service Authorities

Another form of delegation that is used frequently to provide services and facilities in developing countries is the special authority operating in a service district. Special authorities are public corporations established to provide specific types of urban services within a well-defined jurisdiction that often encompasses more than one city or town. Special districts are sometimes created to provide services to many towns or municipalities located in the same metropolitan area (water and sewage

districts), or a special function serving an area that crosses administrative boundaries (drainage and flood control), or services that local governments cannot effectively provide (airport).

Special authorities and districts have been created to finance the extension of services and facilities by using funds earmarked by the national government, or by charging user fees rather than resorting to increases in local taxes. Sometimes they are created to avoid national debt or budget restrictions on local administrative units. In many cases they are established to remove administration and control over politically sensitive services and facilities from local governments, to provide more flexible administration of those urban services and facilities that can be managed commercially, or to coordinate the finance and management of urban development programs that require the participation of more than one level of government. In metropolitan areas where there are numerous local jurisdictions or local governments, area-wide provision of services by a special authority can be more efficient and effective than each jurisdiction providing the service itself (ACIR, 1964).

In many developing countries, however, provision of urban services through public enterprises and authorities has neither been efficient nor financially self-sustaining. In Thailand, for example, about 45 percent of the water in the system of the Bangkok Metropolitan Waterworks Authority cannot be accounted for and about 36 percent of the water that is lost is leaked from faulty mains, trunks and connections (Peterson et al., 1986). The Bangkok Mass Transit Authority's (BMTA) average fare recovery ratio is only 78 percent, and only three-quarters of total operating expenses are recovered from revenues. This is due in part to the central government's policy of keeping metropolitan bus fares artificially low. Pakkesem (1985: 244) points out that in Thailand, "such underpricing of urban transport services has not only increased demand for these capital and energy intensive services but has also undermined the financial viability of the state enterprises supplying them." But central government interference in pricing policy is not the only factor explaining the poor record of cost recovery. Inefficiency and inability to respond to consumer demand also contribute to poor financial performance. BMTA has high labor and wage costs, relatively low levels of productivity, and poor performance in equipment maintenance. Privately operated minibuses in Bangkok--which account for about 45 percent of all trips--earn profits while the BMTA has incurred loses of $30 to $40 million a year. The private operators have better collection procedures, higher labor productivity, and offer more frequent and convenient services.

The poor performance of public corporations in Malaysia has led to a serious reassessment of their operations. Their financial performance has not been satisfactory. Many have incurred substantial losses. In those providing public services "there have been recurring problems relating to poor maintenance of plant, equipment and premises and to the promptness, quality and reliability of services" (Al-Haj and Yusof, 1986: 220).

Because the central government has not provided clear sets of objectives for public enterprises, problems arise from overlapping functions and ambiguity in criteria for selecting investment projects. The efficiency of Malaysian public enterprises has been undermined by the shortage of qualified managers and by high levels of turnover among staff. Problems have also arisen from the lack of coordination with federal government ministries. The government has found it difficult to control the financial operations of many public enterprises.

Other problems arise from the proliferation of public authorities and enterprises. Although the expansion of state enterprises allowed governments to mobilize capital and increase investment in both the public and private sectors in Latin America during the 1970s and early 1980s, much of the investment was financed from external borrowing and contributed to their debt problems during the 1980s. About 60 percent of Brazil's external debt, for example, was incurred by state enterprises (Ramos, 1987). Moreover, many of the public authorities in Central and Latin America fail to exhibit the managerial efficiency that they are supposed to bring to urban service provision. The inability of the water authority in the Guatemala City metropolitan area to maintain and manage the system efficiently, for example, substantially drives up the costs of water services. The authority cannot account for 70 percent of the water in its distribution system. Half of the water is thought to disappear through leaks in pipes and equipment. Illegal connections siphon off the rest of the water for which the authority is not paid. Similarly, in Tegucigalpa, Honduras, the authority does not meter either the water taken into the system or the amount consumed by customers, but nearly half of the water entering the system is thought to be lost through leakage (Peterson, et al., 1986).

Analysts of decentralization policies should consider five major criteria that are generally used to assess the desirability of creating special authorities or special districts to provide urban services and facilities (ACIR, 1964):

- Effective performance of the service involved: whether or not the service can be provided efficiently and effectively by a special authority or district and whether its service area is a logical one for the function; and the degree to which the service involved relates to services performed by existing units of government.

- Economy in providing the service: whether or not the authority or district--considering its size and the nature of the service--can provide services more economically than other organizations and can achieve economies of scale that are greater than those of local jurisdictions; whether it will duplicate functions already being performed by other organizations; and whether it can obtain financial resources more effectively or less expensively than local administrative units.

- Political responsiveness: whether or not the authority or district can fulfill the service needs of the urban population in a way that is more politically accountable and responsive than local governments or administrative units and can encourage citizen participation in its activities.

- Impact on fragmentation of governmental and political responsibility: in terms of the number of other types of services and facilities that are already being offered by special authorities or districts and the number of other special authorities or districts that have already been created in the area.

- Impact on existing governmental structure: in terms of how the creation of new special authorities or districts will affect operation of local governments and whether or not their creation will impede appropriate reorganization of local administration to make it more efficient.

Shirley (1983: 69-70) suggests six major reforms that can overcome weaknesses of public corporations, public authorities, and state-owned enterprises (SOEs) in developing countries:

- Setting clear-cut and attainable objectives is essential to improving the performance of SOES. The costs of noncommercial constraints placed on SOEs should be calculated and weighed against the benefits to society.

- Once constraints have been identified and the costs estimated, government can instruct many SOEs to maximize their profits, taking into account other objectives that reduce profits by reimbursing the companies or lowering their profit targets.

- Negotiated agreements, such as contracts or corporate plans, can help to put SOE-government relations on a more constructive plane. In particular, two-way contracts can help win SOE management over to the idea of reform by setting out benefits as well as responsibilities. Once government has laid down objectives, managers can be made responsible for choosing the methods of achieving them.

- Systems of monitoring and evaluating performance are needed to transform good intentions into results. By promoting domestic and international competition, encouraging consumers and other customers to make their views known, and requiring SOEs to pay the opportunity costs of their capital, governments can add to the pressures for good SOE performance.

- Managerial ability is key to the success of SOE reform. Managerial incentives linked to performance are important in motivating top managers. Some of the most powerful incentives are nonpecuniary (recognition, prestige, awards). Compensation and training should be geared toward creating a corps of competent SOE managers with appropriate skills. Efforts should also be directed at encouraging continuity of senior staff.

- The managerial and fiscal burden of SOEs can be reduced by liquidating nonviable enterprises as well as by selective sales and by using alternative means to achieve the government's goals.

These should not be treated as instant solutions, but rather as integral parts of the process of replacing the burden of central administration by decentralized market forces.

Any policies for decentralization that increase responsibilities for public corporations, authorities and enterprises must take account of their comparative strengths and weaknesses and of the actions that must be taken to improve their efficiency and effectiveness in providing urban services and infrastructure.

5.3 MARKET SURROGATE ARRANGEMENTS

Another important approach to promoting the decentralization of urban development activities in situations where delegation, devolution or privatization are not politically feasible is through the use of market surrogates. A market surrogate approach is one that seeks to improve public sector performance by institutional reforms that offer efficiency elements of markets such as enhancing competition, choice and accountability (Lamb, 1982:1). Market surrogate arrangements can have two major components. One alters the competitive environment in which an organization must operate so that pressures are greater for it to improve its service delivery. The other rearranges conditions within the organization so that internal incentives reinforce the competitive pressures from the external environment.

Policy analysts should assess new ways of introducing market surrogates. One might be to encourage direct competition among public service institutions and with private sector organizations. Another might be to encourage the active marketing of government services to different "consumer groups" within a city.

Encouraging direct competition would break up the public service monopolies now held by many public authorities or government agencies in developing countries, and allow other public agencies to provide urban services. This

process of planned redundancy would increase the sources of service provision for urban households and businesses. The budgets of public agencies would then depend in part on the scope, coverage and quality of the services they provide.

Competitive arrangements can be made for government to provide some services and for private enterprises to provide others. In some cities, the municipality collects refuse in some parts of the city and private firms are contracted to collect refuse from other parts. In other cities, the municipality collects garbage in downtown areas and contracts for private firms to collect it in outlying suburban areas.

Savas (1981) has found that competitive systems of service provision have a number of advantages for both urban households and municipal governments. These include increased efficiency, decreased vulnerability to employee actions, decreased vulnerability to contractor failures, protection against monopolistic behavior of contractors or government agencies, dual yardsticks for measuring and comparing performance, and more substantive knowledge and understanding of service delivery. Lamb (1982: 4) notes that in Argentina, "allowing private sector involvement in road maintenance has not only improved maintenance standards and generated entrepreneurial activity; it has also prompted contractor-like innovation in the way the public agency conducts its own maintenance operations in parallel with the private sector."

Encouraging the active marketing of government services would allow public agencies to provide information about a range of potential services or different "market baskets" of services that would be appropriate for groups of people who have different needs, preferences, levels of disposable incomes and life styles. Instead of merely extending standard services in conventional ways throughout the city, public agencies would attempt through marketing to "target" different combinations of services to different urban neighborhoods and communities.

5.4 MUNICIPAL OR LOCAL GOVERNMENTS

Municipal or local governments play important roles in urban development and can be effective units to which to decentralize financial and management responsibility for providing urban services, facilities and infrastructure.

Municipal governments can encourage informal sector activity in upgrading neighborhood services; provide secure title for those living illegally on urban land in order to support self-help activities; and use political processes to review locational decisions such as street paving, water and sewer design, police and fire stations, schools, health centers, and parks, in order to assure equitable distribution. They can work with national planning groups and professional associations to assure that such locational decisions result in efficient and effective service delivery

(Montgomery, 1988). Local governments can establish employment centers in low-income districts to recruit workers for road and sewer maintenance and other unskilled jobs. They can train police and fire personnel in the organization and supervision of voluntary activities and para-professionals to deliver health and education services in low-income areas.

The potential advantages of municipal and local governments in urban development are numerous (Silverman, et al, 1983; Esman and Uphoff, 1984):

- A system of local government allows citizens to participate more easily in public activities that affect their economic and social well-being and can elicit stronger support for urban development activities because local residents can see the benefits more easily.

- Local government officials can plan and set goals that reflect local conditions and that meet local needs more effectively than those in higher levels of government.

- Local governments have an advantage over national and provincial governments in enforcing laws, rules and regulations affecting public welfare and safety and in maintaining law and order on a daily basis.

- Local officials can more easily maintain urban services and infrastructure because they can monitor deterioration and breakdown.

- Municipal governments are often more efficient in planning and managing small-scale development projects because they can give these activities closer and more frequent supervision.

- A strong system of local government is also considered an important element in maintaining the political stability that is necessary for urban economic and social development.

- Municipal governments can play an important "enabling" role that facilitates participation by other public and nongovernmental organizations in urban development activities and that promotes more efficient urban development decisions.

In most developing countries, however, municipal and local governments are among the weakest administrative units and few fulfill their potential. Municipal and local governments in many developing countries lack the skilled personnel to plan and manage service delivery efficiently. Assessing the situation in Pakistan, for example, the Asian Development Bank (1986: 165-166) reports that: "Partly as a result of municipal finance problems, many local governments are ill-equipped to carry out programs of urban service expansion, and maintenance and operation. Both quantitative and qualitative staffing problems exist, the latter being

particularly acute at local government levels, which carry the lowest status in the government hierarchy. Wage and salary levels are low relative to the private sector. ... Additionally, local governments still function under rules and regulations which were designed in an era when control and not development was the main pre-occupation of government. Such a situation has a stultifying effect on readiness to assume responsibility and initiative in taking decisions."

Policies that aim to transfer responsibilities to municipal governments must also address their substantial training needs.

The entire experiment in administrative and financial decentralization in Colombia rests on the ability of municipalities to use effectively the resources they receive through intergovernmental transfers and, ultimately, to expand their own revenue generating capability. The success of the decentralization efforts in Colombia, however, could be seriously undermined by the low levels of municipal management capacity found in most small and intermediate-sized cities.

A recent World Bank Mission to Colombia summarizes concisely the municipal development needs in that country (World Bank, 1984: 9):

> Outside of the major metropolitan areas, few cities have adequate systems for capturing and organizing data concerning the performance of urban systems and the changes and developments which occur within them. City management without an accurate, complete and up to date data base is poor at best; there is a general need for improvement in the data base and management capacity commensurate with the level of fiscal autonomy and responsibility accorded to local authorities. The devolution of fiscal autonomy to local governments requires the development of efficient techniques for financial planning and forecasting and for modelling consolidated local public sector budgets, expenditures and revenues. With varying degrees of financial autonomy, there is often enormous scope for increasing local revenues: valorization, cadastral revisions and improved revenue administration and collection are some of the possibilities that should be explored.

Most developing countries need programs that strengthen the administrative and financial capabilities of municipal and local governments so that they can fulfill their potential as efficient providers of local public goods and services. Among the changes needed are those that (Johnson, 1985):

- Upgrade the planning capability of local government to anticipate and deal with physical, economic and social changes as urban development occurs and to formulate and implement policies and programs for coping with those changes;

- Improve personnel management capabilities by developing job descriptions, effective operating procedures, salary and wage guidelines, transfer and promotion policies, and performance evaluations;

- Develop efficient procedures for identifying revenue collection potential and improving tax collection performance;

- Establish and improve methods of record-keeping and billing to implement revenue enhancement programs;

- Develop and implement cost recovery programs for capital investment projects;

- Strengthen capital facilities planning procedures and programs;

- Improve methods for capital budgeting and accounting that identify and track the full costs of operation and maintenance in order to provide full cost recovery;

- Establish methods for measuring the performance of service provision in order to maximize benefits and minimize unnecessary resource expenditures.

Local governments can play a major role in urban development activities and in the provision of those urban services and infrastructure that are public or merit goods. But the feasibility of decentralization depends on strengthening their managerial and financial capacity and on the willingness of national governments to grant them the revenue raising authority and administrative autonomy to provide public services effectively.

Central governments in developing countries can strengthen municipal government's financial capacity to provide infrastructure and services by (Rondinelli, 1983):

- Expanding taxing and revenue raising authority for cities and municipalities, allowing them to raise revenues from a wider variety of local sources and to use a greater number of tax instruments.

- Creating special funds for urban infrastructure and service development that can be used to finance costly capital investments and that can be replenished from national revenue sources such as customs, excise or import taxes or from line agency budgets.

- Providing statutory payments to local governments from fixed percentages of recurrent revenues of central, state or provincial government budgets as unrestricted grants, thus giving municipalities more flexibility to meet local needs and demands.

- Providing technical assistance and training to local officials in improving tax administration and collection procedures and increasing revenues from existing sources.

- Allowing city or municipal governments to draw loans from national development banks or credit authorities to provide services and facilities for which users can be charged and which generate revenue that can be used to repay the loans.

- Strengthening the property taxing powers of city governments and improving their capacity to do tax mapping, keep and maintain records, assess property values more accurately and fairly, and collect revenues more effectively.

- Standardizing and improving intergovernmental transfers and allocating funds from the national government to municipal governments more effectively so that revenues reach them in a timely manner.

- Expanding the authority of municipal governments to engage in public enterprise for services not offered by the private sector, and relaxing restrictions on their pricing policies and profit ceilings.

- Expanding the authority of city governments to levy preferential land use and business taxes to stimulate desirable economic activities and to guide the physical patterns of urban development.

5.5 GOVERNMENT-ASSISTED SELF HELP

Nearly all governments in developing countries use some form of self-help to extend urban services to poor neighborhoods. Poor households contribute labor and materials to projects for improving neighborhood services and facilities, and national or local government agencies provide technical and financial assistance. Self-help programs can be used to construct local infrastructure such as streets and roads, schools, clinics, and water and sanitation systems and to provide basic social services.

Government-assisted self-help programs are used frequently to meet the rapidly expanding needs for shelter in developing countries. Governments promote self-help for individual home construction through sites-and-services projects. Either in conjunction with sites-and-services and upgrading schemes, or through individual efforts, self-help housing construction is a primary means by which urban residents obtain shelter. Government-assisted self-help efforts can provide core dwelling units for large numbers of poor households (Laquian, 1983).

Experience in Colombia indicates that the urban poor will build their own houses or will hire informal sector builders for low wages to assist with the more difficult parts if government provides title to the land they occupy and basic public services. In Colombia, "the best way to assist low cost self-construction of housing is to provide building materials at a reasonable price" (Sanders, 1983: 7). Exploitation of the poor by merchants and the expense of transportation raised the cost of building materials and because an obstacle to self-help efforts in barrios in Cali, for example, until the Carvajal Foundation provided building material warehouses that sold construction materials to barrio residents at market prices rather than at the inflated prices they had to pay private merchants. The warehouses forced local merchants to lower the prices for their materials also.

The self-help approach to shelter construction has a number of advantages for low and middle-income households in urban areas. Among the advantages are that it (USAID, 1963):

- Makes shelter available for those families who have no other means of securing housing of at least minimum standards;
- Reduces the cash outlays for housing construction by as much as half because labor costs account for such a large portion of total construction costs;
- Promotes greater pride and satisfaction in home ownership because poor families participate directly in the construction of their houses;
- Increases the real wealth of poor families without causing inflation;
- Helps develop construction skills among low income people;
- May increase the demand for building materials that can be produced by small-scale local industries; and,
- Encourages personal interest in home maintenance and expansion after construction is completed.

Heavy reliance on assisted self-help as a deliberate government policy to provide urban shelter requires careful organization and public promotion, however, and can also have some disadvantages. Among them are that self-help:

- Requires the commitment of participants' time and labor, for which there may be many competing demands;

- Requires strong, and often organized, effort to maintain the initial enthusiasm of participants throughout the home building process;

- Requires the development of building skills by people who may have no further need for them, except for maintaining their homes, after their dwellings are completed;

- Often leads to slower rates of home construction than by the contract method; and,

- Can often result in a lower quality of building construction than if dwellings were built by more skilled workers.

The construction of housing through government assisted self-help programs is likely to remain the primary means by which the poor obtain housing in developing countries. Government programs that assist or facilitate self help provide larger numbers of poor families with at least basic shelter.

UNICEF uses a Basic Urban Services Strategy that elicits the participation of both men and women from poor families in extending services to their neighborhoods (Hollnsteiner, 1982). Professionals train, supervise and direct neighborhood residents as paraprofessional service providers. UNICEF assists government agencies to select technology that is economically, socially, and culturally appropriate for delivering services in poor neighborhoods and arranges for neighborhood groups to contribute cash, labor, or materials to help finance the services.

Success with this self-help approach to extending urban services to poor neighborhoods is reported in Rio de Janiero, Brazil; Lima, Peru; Kuala Lumpur, Malaysia; Colombo, Sri Lanka; Calcutta, India; Guayaquil, Ecuador; Addis Ababa, Ethiopia; Mexico City; and several cities in Indonesia (UNICEF, 1982). Community groups in the Rocinha favela of Rio de Janiero, for example, helped develop an appropriate curriculum for the community school that now enrolls more than 800 children and adults. Other neighborhood groups built secondary sewer connections from the main system to the community through self-help, and later they will complete household connections. People in the same slum area are working with the Municipal Sanitation Company to solve solid waste management problems (Brasiliero, et al. 1982). More extensive attempts were made to upgrade services on a self-help basis in existing slum areas of Kuala Lumpur through a program undertaken during the 1970s in conjunction with UNICEF. The program helped local groups establish preschool educational centers, maternal and child care clinics, and income generating activities. A wider application of this approach came through the NADI Program in the late 1970s and early 1980s. With UNICEF assistance, services were provided in slum and squatter settlements through the cooperation of a large number of local and central government agencies working with community groups and voluntary organizations (Hashim, 1985; Lim, 1986).

Given the nature and magnitude of service needs in urban areas and the limited financial resources available in developing countries, self-help programs seem to be the most effective approach for reaching large numbers of people quickly.

Optimism regarding community self-help projects should not, however, mask some important problems, reservations and unanswered questions about this approach. There may be inherent barriers to establishing self-help projects in countries where there is opposition by national bureaucracies to locally controlled projects.

Moreover, the rigid sectoral channels through which services are delivered in most countries may inhibit cooperation among specialized agencies in supporting urban self-help projects. Although self-help can meet many basic urban needs, it cannot provide the entire range of services. In health care, for example, more sophisticated forms of medical care involving hospitals, highly trained physicians and complex equipment are still required, even where self-help preventive services are available, although less extensively than if the objective were to extend sophisticated curative care to the entire population.

Conditions that promote successful self-help programs are described in Appendix B.

5.6 COOPERATIVES AND MEMBERSHIP ORGANIZATIONS

In many developing countries, cooperatives are another means of increasing the participation of local residents in urban service projects, cooperatives help mobilize local resources, channel information about local conditions and needs to government officials, and provide a wide range of productive and social service to their members (Ralston, Anderson and Colson, 1981).

Cooperatives have been used in some developing countries for low-cost housing construction to supplement self-help programs. In communities where residents cannot easily obtain credit, cooperatives help members to pool their resources to buy materials. Usually members of the cooperative assist each other in constructing core units until all members have core shelter Then they assist each other in expanding or upgrading their houses as they acquire the resources to do so.

Assessing the experience with cooperative housing policies, Guhr (1984:93) found that cooperatives can help to create integrated urban communities by providing housing, supplying various services and facilities and promoting of employment opportunities, providing education and raising the standard of living in general.

By controlling financial resources, cooperatives prevent speculation and illegal transfer of houses. The collective system of financing and repayment fosters mutual responsibility and considerably reduces the danger of defaults. Gradual assumption of responsibilities for the administration and management of cooperatives by the members, reduces costs considerably. Finally, cooperatives mobilize savings and promote collective maintenance and upkeep of houses and neighborhoods.

The savings to poor households from constructing a house through a cooperative can be substantial. Cooperatives in Maseru, Lesotho, for example, that received financial assistance from the United Nations to establish a revolving mortgage fund were able to reduce their members' building costs by about one-third (Altmann and Baldeaux, 1981).

Experience indicates that financial and technical assistance from government or private sources are usually necessary for success. The members must be willing to work together and must have a minimum amount of capital and income in order to repay their loans. Cooperatives must manage group capital and loans carefully so that all members can share in the benefits.

Governments can support housing cooperatives in a number of ways. They can assist in organizing cooperative organizations, and provide training in techniques of housing construction. Central government ministries can make extension agents available to work with cooperatives during the construction and maintenance phases and help them to mobilize "soft-loan" capital to establish revolving loan funds. These loan funds can be replenished when housing units are completed and loans are repaid. Both local and national government agencies can help by assembling land on which low-cost shelter can be built by cooperatives. They can assist cooperatives to obtain reasonably priced building materials and extend basic infrastructure and services to cooperative housing sites.

Reviewing the experience with housing cooperatives in African countries, Altmann and Baldeaux (1981:51) conclude that they "are valuable tools for self-help development provided that they are used appropriately, i.e. not overburdened by unrealistic expectations, nor unacceptable for ideological reasons, nor entered into as easy-going solutions." The cooperative housing option should be seen as one of a number of policy approaches that are needed to meet the shelter needs of the poor in Third World cities.

Cooperatives can also be used to provide urban services other than housing. For example, there is growing evidence that, with appropriate inducements, street and road maintenance can be performed by community associations more efficiently than by an overburdened central government (Roth, 1987a). A powerful tool to enable groups of property owners to act effectively is the deed-based covenant, which obligates property owners to meet the costs of joint activities, such as road maintenance. This approach is especially appropriate for middle and upper income neighborhoods where streets or

roads primarily serve only the residents. Failure to contribute to the association's funds can subject the property owner to fines, enforced by liens on the members' properties. Such covenants can be used to raise funds not only for maintenance, but also for extending community services. Matching grants or other inducements can be used to persuade property owners to form associations held together by deed-based covenants.

5.7 PUBLIC-PRIVATE PARTNERSHIPS

Governments in many developing countries are giving increasing attention is public-private partnerships. Public-private partnerships can take a number of forms, including:

- joint ventures, in which public and private organizations formally or informally work together to implement urban development activities;
- joint investment, in which public and private organizations finance facilities and infrastructure or urban development projects;
- turnkey projects, in which governments agree to buy or lease completed facilities constructed by the private sector;
- government incentives or subsidies for private investment in urban services or infrastructure.

Public-private partnerships can be an attractive way of decentralizing urban development activities because they provide access to private investment capital, institutional savings, and private sector management and technical capabilities. In some cases, these partnerships substitute private funding for public financing, thereby relieving the government of some financial burdens for providing urban services and facilities.

Some form of public-private partnership can be found in most cities in developing countries. The work of the Carvajal Foundation--established by the Carvajal Company, Colombia's largest multinational firm--in promoting community development, facilitating urban redevelopment, developing community centers and recreation areas, and promoting micro-enterprises in poor neighborhoods in Cali, is one example of public-private cooperation in urban development in Latin America. Experiments such as those carried out by the Carvajal Foundation in Cali offer an important model for providing assistance to micro- and small-scale enterprises in urban areas. The goal of the micro-enterprise program, which began in 1977, is to provide technical and financial assistance for improving the operation of existing micro-enterprises and to generate employment. More than 4,500 micro-entrepreneurs have been trained in Cali and those participating in the program have generated about 1,000 direct jobs and about 4,000 indirect jobs, at the cost of about US$1,000 in credit per job created. The program has been extended to 25 Colombian cities (Sanders, 1983).

Sites-and-services projects are another form of public-private partnership. Beginning in the 1970s, many governments in developing countries began to seek alternatives to public housing for meeting the shelter needs of the poor. In sites-and-services programs, government housing agencies assemble, clear, and provide with services and infrastructure land that is divided into home sites. Poor families build their own basic shelter, usually with subsidized materials or with credit provided at low rates of interest, or contract with small-scale construction enterprises to build basic dwelling units for them.

Sites-and-services projects in some countries are also combined with employment generation programs and with the organization of neighborhood cooperatives to provide infrastructure on a self-help basis. The Philippine government, for example, began to redevelop the Tondo Foreshore area in Metropolitan Manila, one of the country's worst slums, and sought to improve services, facilities, employment opportunities, and shelter in other slum communities rather than simply clearing them. The government's BLISS program attempted to combine housing and service improvements with "livelihood development" programs. With World Bank financing, the government started a Zonal Improvement Program (ZIP) that sold low-cost homelots to poor families and provided roads, sewerage, water, power, drainage, refuse collection, markets, and health, educational, and recreational facilities. A complementary approach, the Metropolitan Manila Infrastructure, Utilities and Engineering Program (MMINUTE), sought to upgrade basic urban services in low-income communities that were suffering from adverse environmental conditions but that were not included in ZIP. Local governments were given the task of identifying, planning, implementing and maintaining drainage canal, public toilet, water supply, and street-widening projects (Von Einsiedel and Molina, 1985).

The World Bank's (1983) experience with sites-and-services and urban upgrading projects has been that although these approaches are more effective in providing affordable shelter for the urban poor than slum clearance and public housing programs, most sites-and-services schemes remained pilot projects serving a relatively small percentage of the poor households needing shelter. Five major obstacles to expanding sites-and-services approaches to shelter provision have been (Cohen, 1988):

- inadequate numbers of trained professionals in both the public and private sectors who can design, facilitate and manage effectively sites-and-services projects;

- difficulties in developing and providing inexpensive building materials and technology that the poor can afford;

- reluctance on the part of public bureaucracies to elicit community participation in the design and implementation of the projects;

- ineffective information dissemination among developing countries about those methods and techniques of self-help construction that work best; and,

- weak financial institutions for providing low interest loans needed by the poor to improve and expand their dwelling units.

Other public-private partnerships involve the provision of government guarantees or incentives to induce private organizations to invest in infrastructure or to provide services that contribute to urban development. For example, through a loan from the U.S. Agency for International Development, the government of Barbados created a Housing Credit Fund (HCF) in the Ministry of Housing and Lands to provide capital at below market interest rates to private banks, trust companies, the Barbados Mortgage Finance Company and other financial institutions to make loans--using regular commercial procedures--for low-cost housing in urban areas. The HCF is a revolving fund that has expanded substantially the role of private commercial lenders in extending credit for housing to low-income households. Moreover, the HCF works with private builders and local officials who deal with building and land use regulations to plan and obtain approval for the construction of housing units that low income families can afford (LaNier et al., 1986).

5.8 PERFORMANCE CONTRACTING

Contracting for services allows governments to arrange with the private sector--using well-defined specifications and under careful supervision--to provide services that meet the quantity and quality specifications of the government. Basic health care, garbage collection, fire protection, public safety services, and education and training can often be provided effectively by private organizations or private voluntary organizations. Government agencies can use performance contracts to supplement their resources, personnel and equipment and to promote greater responsiveness and flexibility for delivering services to groups with varying needs and ability to pay (Savas, 1982; Ferris and Grady, 1986).

Central governments and municipalities in developing countries contract for out both service and commercial functions. The municipality of Sfax, in Tunisia, provides buildings for fruit and vegetable markets, and contracts the management of the markets to individuals and cooperatives. The municipality charges parking and storage fees, but it does not otherwise intervene in the regulation or management of the markets.

Roth (1987a) contends that contracting can be effective for highway and road maintenance. The Ministry of Public Works or a municipal highway authority invites bids from contractors to bring the road to a specified condition and to maintain it at that condition. It defines a "Standard Tariff" per 1000 vehicle-kilometers, with higher rates for heavier axles.

Contractors bid for the right to maintain the road for a percentage of the standard tariff. The contractor is responsible not only for maintaining the road but also for protecting it from overloaded vehicles. The contractor's profit increases with traffic volume and declines with greater road damage. Traffic volumes are determined from traffic counts. Lengths of roads can be selected to match the capabilities of contractors. One of the advantages of such an arrangement is that, as a result of maintenance bids, governments get firm figures of the costs of maintaining roads. A further advantage is the development of industries in developing countries that can be used for new construction as well as maintenance.

Contracting-out can be advantageous for a number of reasons (Ferris and Graddy, 1986):

- There is a stronger incentive for private firms to keep costs down, to avoid the bureaucratic problems that plague central and municipal governments, and to experiment with new technology and procedures.

- Contracting allows services to be provided or extended without large increases in the number of public employees and without public agencies making large capital investments in facilities and equipment.

- Private contractors can often obtain a higher level of productivity from labor than the civil service, they can use part time labor where appropriate, and they can often use less labor intensive methods of service delivery.

- Private contractors are often free from the severe civil service restrictions on labor practices, and they search out minimum cost approaches to service delivery in order to maximize their profits.

- Contracting out gives both small and large cities the ability to take advantage of economies of scale. It also permits governments to adjust the size of programs incrementally as demands or needs change.

- By contracting with several suppliers, government can assure continuity of service.

- Contracting-out also allows governments to take advantage of specialized skills in non-governmental organizations.

- By contracting competitively for services, governments can determine the true costs of production and thereby eliminate waste.

There are also potential disadvantages of using performance contracts (Savas, 1982; Hatry, 1983; DeHoog, 1984):

- To the extent that contracting out displaces public employees it can generate political opposition and hostility by public officials and political groups who benefit from public employment.

- If contracting procedures are not well designed, supervised and enforced, contracting can be more expensive than government provision of services because of corruption, the cost of contract management or the absence of sufficient competition.

- Contracting can also limit the flexibility of government to respond to emergencies. If too many contractors are used, it limits the opportunity to take advantage of economies of scale. If government regulation of contractors is too stringent it can lead to deficiencies in service provision and if it is too lax service providers cannot be held accountable.

- Performance contracting can have substantial administrative costs.

Performance contracting can be most effective in situations where efficiencies arise from economies of scale, where greater productivity can be obtained from hired labor or professionals than from the civil service, where contractors can make use of part-time labor or less labor-intensive methods of operation (Ferris and Graddy, 1986).

Although contracting for urban services has both potential advantages and disadvantages, the former can be maximized and the latter minimized when government assures a competitive contracting process, has adequate procedures for assuring cost reduction and service quality, and performs an effective "watch-dog" role (DeHoog, 1984.) LaNier and his associates (1986: 20) point out that the key to formulating a successful public-private partnership of any kind "is to assure that the objectives of both parties are compatible, i.e., that a project is structured so that achieving the desired result will serve the interest of both parties."

5.9 PROVISION OF SERVICES BY PRIVATE ENTERPRISES

The role of the private sector in providing urban services and infrastructure is growing in developing countries. Private businesses, private voluntary organizations and even informal sector enterprises can usually provide goods and services for which they can charge users. Roth (1987) describes a wide range of public services that private businesses and firms provide in developing countries, including formal and nonformal education and training, electricity, preventive and curative health services, telecommunications, transport services, and water and sewerage services.

Analysis of private sector participation in providing urban services must include the informal sector. The informal sector consists of large numbers of very small individual or family run activities that can provide a significant number of goods and services in urban areas, particularly to low-income users. Informal enterprises and small-scale entrepreneurs can also maintain roads and public facilities. In Kenya, for example, the government makes heavy use of individuals and informal sector enterprises in road construction. Maintenance is carried out by local residents with supervision by road engineers (Anderson and Vandervoort, 1982).

The proper role of the private sector in providing public services in developing countries remains a topic of serious debate.

a. Potential Advantages

Advocates of privatizing the provision of goods and services in urban areas argue that the private sector has lower production costs and greater capacity to obtain and maintain capital equipment. The private sector can offer consumers greater choice and provide services more flexibly. Private organizations can make decisions more efficiently and expeditiously. When they deliver urban services effectively, private organizations reduce the financial and employment burdens on government (Hatry, 1983; Pirie, 1985).

Advocates of privatization argue that market pressures stimulate private firms to find new ways to cut costs, increase their competitiveness, and search for ways to increase productivity. Private businesses can provide goods and services at lower cost and with greater efficiency than public agencies because they are are less restricted in work and hiring practices than public agencies and can use their staff more flexibly. They can reduce the number of employees more easily when it is necessary or lower labor costs per unit of output.

Moreover, government budgets severely restrict government agencies from obtaining and maintaining the capital equipment needed to provide public goods and services efficiently. Private businesses have a strong incentive to invest in new technology and to obtain sufficient amounts of capital equipment to keep competitive. In addition, provision of goods and services by private businesses give consumers greater choice and the ability to express their preferences through the market. Private businesses also have more flexibility meeting the demands of a variety of consumer groups, whereas government agencies must usually offer standard services.

In the public sector, decisions about the allocation of resources for services and infrastructure and about pricing policy are often based on political criteria and are the result of long and complex negotiations among public agencies and political officials. Pricing policies are often set by officials to gain political advantage or are influenced by special

interest groups. Private businesses, however, are able to make resource allocation and pricing decisions more expeditiously based on economic factors and consumer demand.

Finally, when governments allow greater private sector participation, they reduce their financial burdens and can reduce or slow the growth of public employment.

World Bank (1983a) studies point out that in many Third World cities small private bus companies and minibus operators provide better--and often less costly--transport services than do large municipal bus systems. Moreover, public bus systems often do not provide convenient or flexible service in slum and illegal squatter settlements, nor do they run major transport routes within easy walking distance of low-income sections of the city. In Istanbul, Calcutta, Bangkok, and Nairobi, private minibuses provide more convenient and flexible service in and around poor neighborhoods and in some cities are preferred by low-income families even when their fares are somewhat higher than that of the public transport system.

Another of the services that the private sector--and especially small-scale enterprises and private voluntary organizations--can provide effectively is low-cost housing. Most of the housing built in developing countries is constructed by very small informal sector firms and individual builders are responsible for much of the housing acquired by poor and middle income families. In most developing countries, the formal construction industry provides only a small fraction of the total number of housing units needed, and the poorest households cannot afford housing constructed by private firms. In Egypt, more than half of the housing is constructed by the informal sector (Soliman, 1988). Studies indicate that about 68 percent of the houses built in the Tegucigalpa metropolitan area in Honduras is constructed by informal sector organizations (Cooperative Housing Foundation, 1984). Virtually all of the dwellings of the poor in Nepal, Indonesia, Bolivia, Colombia, and Brazil (Hardoy and Satterthwaite, 1981). In Kenya, there is a deficiency of more than 300,000 units in urban areas because the private housing construction industry has been producing no more than 10,000 units a year (Rourk and Roscoe, 1984). Not only does the private sector fail to meet the housing needs of poor households, but it usually fails to serve middle income families as well. In Panama, no more than 5 to 10 percent of the middle income families can afford homes constructed by private builders (USAID, 1983a).

b. Potential Disadvantages

Many of those who are critical of, or at least cautious about privatization, see these and other problems with expanding private sector participation in public service provision (Hatry, 1983; Pirie, 1985). Privatization, they argue can:

- Lead to greater unemployment among public service workers
- Raise the price of public services and infrastructure for many consumers
- Provide greater opportunities for corruption
- Lower wage levels and employment security for those working in the services field
- Reduce or eliminate necessary but unprofitable services
- Eliminate those who cannot afford to pay market prices from receiving services
- Reduce public control over the types and quality of services provided
- Convert public monopolies into private monopolies and give greater economic and political influence to big businesses.

Critics of privatization argue that the transfer of services to the private sector can result in substantial job losses in countries with large labor surpluses as a result of financial cost-cutting or in an attempt to maximize profits. The social costs of unemployment are not considered by private businesses. Moreover, if public goods and services are offered only at market prices and with no cross-subsidies for lower-income groups, this will raise the price of services and infrastructure for those urban households who can least afford to pay. At the extreme, private businesses can eliminate services that are unprofitable, provide inferior quality services in an attempt to maximize profits, and leave poorer parts of the city unserved. Without adequate supervision, private businesses engage in activities that increase social costs or that transfer costs from individual firms to society by polluting air and water resources, colluding on prices, or failing to pay adequate wages, provide fringe benefits, or create safe working conditions.

In addition, some argue that privatization will lead to pressures to keep wage rates for service industry employees low. Private businesses have little incentive to provide the same levels of job security and benefits that workers can receive in the public sector. To the extent that the private sector can prevent unionization, workers have little power to influence their working conditions.

Privatization can also increase the opportunities for corruption in both the public and private sectors, especially when private provision of "monopoly" services depends on government regulation and rate setting, or when private business must obtain licenses or contracts from government. Bribery and corruption raise the costs of services for consumers and undermine the moral fibre of society. When governments privatize "natural monopolies" such as gas, electric, or railway services, they often merely transfer monopolistic practices from the public to the private sector, allowing big businesses to obtain greater economic and political power that cannot be controlled easily by citizens. There is little incentive for private monopolies to operate efficiently, to cut costs, or to act in the public interest. Private monopolies can be as unresponsive to consumer needs and demands as large public bureaucracies.

Most of these arguments for and against greater participation of private businesses in the provision of urban services and infrastructure are drawn from experiences in more developed countries, and few systematic studies have been done of privatization in less developed countries.

But experience suggests that governments can play an important role in supporting private participation in service delivery and infrastructure provision in ways that are beneficial for urban residents. Governments can stimulate and support small-scale private enterprises to increase housing production. One means is to modify official building standards to conform to local needs and conditions. Ironically, as was noted earlier, governments in many developing countries adopt building codes and land use standards from Western industrial countries that are not only inappropriate to local conditions but may create unnecessary costs. Overly restrictive housing construction standards, for example, constrain housing production and place home ownership beyond the means of low and middle income families. By lowering density controls, lot coverage, room floor area requirements and height controls, in ways that do not endanger human health or safety, municipalities can increase housing production, make units less expensive and make land use more efficient.

Governments can assist private and informal sector construction enterprises to keep building costs low in poorer neighborhoods by opening building supply outlets that sell construction materials at, or slightly below, market prices. They can help small scale builders to obtain access to land by acquiring and servicing sites that can be subdivided into small and affordable plots. They can help small builders to use labor and materials more efficiently by standardizing site plans for low-income housing projects (Liebson, 1982).

CONCLUSIONS

Policy analysts should assess all of these organizational alternatives in determining the feasibility of decentralization. Different urban development functions require different organizational structures. Organizational arrangements that may be appropriate for decentralizing one type of function, such as electric power or road construction, may be inappropriate for others such as low-cost housing construction, basic health care or road maintenance. Policy analysts must be able to distinguish between the strengths and weaknesses of public and private sector organizations in delivering different types of urban services. They should be able to determine the lowest organizational level within government at which public goods can be provided efficiently and effectively. And analysts should be able to identify the most appropriate private sector arrangement for delivering services that governments do not provide efficiently.

CHAPTER 6

SELECTING POLICY INTERVENTIONS

After policy analysts examine alternative financial and organizational arrangements for decentralizing urban services and infrastructure, they must give serious attention to those factors that affect policy implementation. This includes a more detailed examination of the political, organizational, behavioral and resource factors that influence the ability and willingness of central governments to decentralize authority and of local government officials, leaders of private organizations, and local groups of citizens to accept responsibility for delivering and maintaining services efficiently. Policy analysts must also give serious attention to the appropriate policy interventions that governments and international assistance organizations can use to implement policy. Finally, the implications for policy dialogue between international assistance organizations and governments in developing countries and between central government ministries and local organizations should be explored. Policies then must be translated into guidelines for program and project design, for financial and technical assistance, and for evaluation of decentralized arrangements for urban development.

6.1 ANALYZING FACTORS AFFECTING THE IMPLEMENTATION OF DECENTRALIZATION POLICY

The ability of governments to implement any of the alternative financial and organizational arrangements for decentralizing urban development activities that were described earlier depends on the existence of, or the ability to create, appropriate conditions that allow decisions to be made and implemented by local governments, private enterprises and voluntary organizations.

Policy analysts must be able to assess the following factors: (Rondinelli et al., 1983).

6.1.1 Political Factors

Decentralization requires strong political commitment and support from national leaders for the transfer of planning, decision-making and managerial authority to field agencies and lower levels of administration, or to the private sector (Rondinelli and Nellis, 1986).

- Political leaders must be willing to accept the participation of local organizations that are outside of the direct control of the central government or the dominant political party.

- Support of and commitment to decentralization must also come from line agencies of the central bureaucracy, and central government officials must be willing to transfer functions to local organizations.

- Decentralization usually requires strong administrative and technical capacity within central government agencies and ministries to carry out national development functions and to support their field agencies and lower levels of government in performing decentralized functions.

- Effective channels of political participation and representation must be developed that reinforce and support decentralized planning and administration and that allow urban households and community groups to express their needs and demands and to press claims for national and local development resources.

6.1.2 Organizational and Administrative Factors

Organizational factors conducive to decentralization include:

- The appropriate allocation of planning and administrative functions among levels of government and local organizations, with each set of functions suited to the existing or potential decision-making capabilities of each level of organization.

- Laws, regulations and directives that clearly outline the relationships among levels of government and administration, the allocation of functions among organizational units, the roles and duties of officials at each level, and their limitations and constraints.

- Flexible legal arrangements, based on performance criteria, for reallocating functions as the resources and capabilities of local governments change over time.

- Clearly defined and relatively uncomplicated planning and management procedures for eliciting participation of local leaders and citizens and for obtaining the cooperation of beneficiaries in urban development activities.

6.1.3 Behavioral Factors

Behavioral and psychological conditions supporting decentralization include:

- Appropriate attitudes and behavior of central and lower level government officials toward the decentralization of service provision and maintenance, and a willingness on their part to share authority and accept participation in public decision making.

- Effective means of overcoming the resistance, or getting the cooperation, of local elites and community leaders in decentralized service provision and maintenance.

- Appropriate incentives to elicit the support of those whose participation is needed to make decentralization work effectively.

- A minimum level of trust and respect between local organizations and government officials.

- Mutual recognition that each level of government is capable of performing certain functions and participating effectively in various aspects of financing and managing urban development activities.

- Strong leadership within local organizations and private enterprises that will allow them to deal effectively with local and central governments.

6.1.4 Resource Factors

Finally, sufficient authority must be given to local governments to raise or obtain adequate financial resources to acquire the equipment, supplies, personnel and facilities needed to carry out decentralized responsibilities.

6.2 IMPLEMENTATION ANALYSIS

After policy analysts select the appropriate financial and organizational alternatives and assess the political, organizational, behavioral and resource implications of those alternatives, they must formulate strategies for policy implementation. This includes an assessment of feasible policy interventions and appropriate policy instruments for developing a policy dialogue with host country governments, for designing decentralization programs and projects for formulating appropriate financial and technical assistance programs, and for evaluating the results of decentralization programs.

6.2.1 Feasible Policy Interventions

Among the ways in which A.I.D. and national governments can intervene to promote and sustain decentralization of urban development activities include:

- Developing appropriate and effective national policies and regulations for decentralization

- Strengthening local institutional capacity to assume responsibility for urban development activities

- Providing training for both national and local officials in the finance and management of urban development activities

- Providing technical assistance to local governments, private enterprises and local nongovernmental groups in the planning, finance and management of urban services and infrastructure

- Offering technical and financial support to private sector organizations

Success in implementing decentralization policy depends on the ability of governments in developing countries to reorient their urban service and infrastructure policies. Given the magnitude of the problem, the role of governments must change from being the primary service provider to that of being one of many service providers. But governments still retain a crucial role in assisting local governments, facilitating self-help activities, and supporting private enterprises engaged in urban development.

As a facilitator of urban development activities, governments play quite different roles in assessing needs and determining standards for services. Governments must become facilitators of urban service delivery (Rondinelli and Cheema, 1985). They must be better able to assess the needs for urban services through consultation with beneficiaries and through consumer surveys. They must be able to determine appropriate standards for services based on community needs and conditions rather than on the basis of predetermined, standardized technical standards.

In a decentralized system, central government agencies will have to develop the capacity to plan services through and with neighborhood residents and local governments. They will have to develop the capacity to implement investment programs through community groups and private sector organizations. Central and local governments will have to develop the capacity to use community volunteers, paraprofessionals and informal sector organizations to provide and maintain services. Finally, they will have to experiment with new ways of making private service providers responsive and accountable to community residents and local officials.

International organizations can help governments in developing countries to formulate and apply appropriate criteria for allocating functions among levels of government and between the public and private sectors. In the public sector, there are seven criteria frequently used to allocate functions among levels of government and among administrative jurisdictions. These criteria, derived from experience in the United States, are generic enough to be applicable as well in many developing countries (ACIR, 1963: 41):

- The governmental jurisdiction responsible for providing any service should be large enough to enable the benefits from that service to be consumed primarily within the jurisdiction. Neither the benefits from the service nor the social costs of failing to provide it should "spill over" into other jurisdictions.

- The unit of government should be large enough to offer economies of scale.

- The unit of government responsible for a function should have a large enough geographic area of jurisdiction to perform effectively.

- The unit of government should have the legal and administrative ability to perform services assigned to it.

- The performance of functions by a unit of government should remain controllable by and accessible to its residents.

- The level of government should have procedures that allow for active citizen participation and still permit adequate performance.

Ultimately, the success of decentralization hinges on institutional capacity-building. Capacity is the ability to anticipate and influence change, make informed decisions, obtain and use resources efficiently, and manage resources effectively to achieve objectives (Honadle, 1980). The institutional capacity of local public and private organizations to finance and manage urban service provision and maintenance, must be strengthened in nearly all developing countries (Rondinelli, 1981; Leonard, 1983; Uphoff, 1987; Rondinelli and Nellis, 1986).

International organizations can provide assistance for decentralizing urban development activities most effectively by helping to build the financial and administrative capacity of municipal, private voluntary organizations and small-scale enterprises. The most urgent needs are for training personnel in small-scale enterprises and municipalities in managerial and technical skills. Municipal governments also need help with building an adequate statistical base for planning, managing and maintaining urban services and infrastructure.

6.2.2 Policy Instruments

An important challenge for policy analysts will be to identify and test instruments for implementing decentralization policies and programs that rely less on central control and more on incentives and exchange.

If the needs for urban services and infrastructure are to be met effectively in the future, government agencies will have to forge an appropriate set of relationships with non-governmental organizations.

Community self-help has rarely been successful without support and cooperation from public agencies. Government assistance in organizing the private sector and community groups can be vital in initiating and sustaining community participation. Similarly, even when services are provided entirely by public bureaucracies, community participation is crucial in informing public officials of the needs of urban households so that services can be extended more effectively.

The relationships among at least four groups of "actors" are vital to the success of service provision policies:

- One group consists of political leaders and civil servants at the national government and local government levels. At the national and local government levels, appointed or elected officials and professionals have a strong influence on policy formulation, mobilization of political support, resource allocation, and the monitoring and supervision of policy implementation. At the local level, professionals and technicians are involved in program planning, supervision and monitoring the results and impacts of urban development programs. Field office professionals and technicians are usually concerned most directly with coordination and implementation of urban development programs and have the most direct contact with other participants and beneficiaries.

- A second group of actors consists of the leaders and staff of nongovernmental organizations such as international donors, private voluntary organizations, and nonprofit groups. They lobby for programs and policies to expand urban services, provide technical and financial assistance, promote new concepts and approaches to service delivery, initiate and test pilot projects, mobilize uncommitted resources, and interacte with municipal officials, program managers and field staff of public agencies.

- Third, formal and informal community leaders play a crucial role in channeling demands for shelter, services and infrastructure. They help mobilize local resources, communicate information about needs to local political leaders and inform urban residents of the services available. They also work with program managers and field officials in the implementation of urban development programs, monitor their progress and impact, and elicit the participation of community residents. In some cities, local political party leaders represent the interests of the poor, giving them a voice in decision-making, or intervening on their behalf to obtain public services.

- Finally, private entrepreneurs, informal sector service providers, and owners of small-scale businesses can play an important role in extending public services and facilities. The interests and

potential participation of these actors cannot be overlooked by government, and sometimes their activities must be monitored or regulated.

Any policy or program to decentralize urban development activities and the provision of public services and infrastructure will involve a complex set of relationships among these actors. Success depends in large part on finding ways of reconciling their interests and forging effective and mutually beneficial coalitions among them. New incentives for cooperation may be needed, and new ways must be found for combining the resources and skills that each group possesses in coping with the challenges of urban development.

A wide variety of instruments for policy intervention can be used (Lindblom, 1965; Olson, 1965; Mehrabian, 1970; Rondinelli, 1975; 1976). These include information dissemination and persuasion, advice and consultation, and demonstration projects and programs. Among the most effective interventions are incentives and rewards, bargaining and negotiation, and coalition building. Mutual adjustment, coordination of existing activities, subsidies, and authoritative prescription may be useful when other methods are inappropriate.

Often, decentralization can be initiated simply by creating sets of preconditions -- prices, subsidies and rewards -- that motivate local officials and private sector organizations to provide local services and infrastructure.

6.2.3 Policy, Program and Project Design

Experience with decentralization in more than two dozen countries (Rondinelli, Nellis and Cheema, 1983) yields a number of lessons that should be reflected in policy dialogue and project and program design.

- First, small-scale decentralized programs designed for limited impact are likely to generate more positive and durable results than large-scale, sweeping organizational reforms. Programs should, therefore, be planned on a small scale and expanded incrementally.

- Second, abstract and complex schemes and procedures are unlikely to be implemented effectively in most developing countries and therefore decentralized programs should be kept simple, flexible and appropriate to the capacities of local organizations.

- Third, decentralization requires a lengthy period of gestation before its benefits will be realized, and programs must therefore be planned for the long term. Because decentralization often goes against the grain of tradition and custom and against the interests of some groups whose support is important for its success, it

cannot be implemented without conflict. Successful decentralization programs often require a long period of testing during which political support and commitment must be mobilized.

- A fourth lesson is that decentralization programs in which the first stages are closely supervised efforts to teach local organizations how to handle new responsibilities will be more successful than those that transfer large numbers of tasks or great responsibilities all at once. Programs should therefore be planned tutorially.

- Fifth, decentralization programs can benefit from the involvement of international donors, but when donor agencies are relied on exclusively for financial and technical assistance, long-range impacts will be weak. Programs should be planned with donor involvement, but at the same time for the gradual phasing out of their activities.

- Sixth, decentralization programs that include a component for training central administrators, local officials, and leaders of local organizations will be more effective than those that do not.

- Finally, decentralization programs must transfer adequate financial resources and the authority to mobilize resources locally, as well as powers and responsibilities.

International assistance organizations can also help provide--through monitoring and research--a base of information on experience and lessons with decentralization in developing countries. They can monitor the progress of countries that decentralize responsibilities for urban services and facilities, and evaluate their effectiveness. Although much is known about the strengths and weaknesses of alternative financial and organizational arrangements for decentralization, relatively little comparative research has been done on the conditions under which these alternatives are most appropriate in developing countries. Even less is known about the long term impacts of alternative financial and organizational arrangements on improving the efficiency and effectiveness of urban development programs.

APPENDIX A

APPENDIX A

PUBLIC CHOICE AND PUBLIC ADMINISTRATION AND FINANCE APPROACHES TO ANALYZING DECENTRALIZATION

Two major approaches are usually suggested for assessing decentralization policy: the public choice approach and the public administration and finance approach. Each approach has strengths and weaknesses.

Public Choice Approach

Public choice theory applies economic principles to assessing the demand for and supply of public goods and services. It relies heavily on analyzing individual preferences through political coalitions and market mechanisms. Advocates of applying public choice theory to the provision of goods and services typically assume that markets already exist or can easily be created. They contend that:

- People, as consumers of goods and services, are economically rational and act to maximize their individual welfare;
- Market mechanisms exist and are working effectively--or can be made to operate effectively--to allow a large number of institutions to provide public goods and services;
- Regulations and legal constraints do not inhibit the free operation of the market for goods and services, or if they do inhibit market forces, these constraints can be relaxed or removed;
- Political and economic mechanisms exist through which people can express their preferences for goods and services;
- There is a high degree of physical, economic and social mobility that allows people to move to communities where desired "market baskets" of goods and services are provided;
- Income levels are sufficient to allow people to purchase the combination of goods and services they desire;
- Information about goods and services is available and widely shared among potential consumers.

Although these conditions exist to varying degrees in developing countries, they are not characteristic of all developing countries, and this is one of the major limitations of relying on public choice theory alone to analyze the feasibility of decentralization and the desirability of alternative financial and organizational arrangements. Many developing countries, and especially those with socialist political systems, have only weak markets.

Others have market systems with imperfections that weaken or negate assumptions of public choice theorists.

Public choice theory can be useful in analyzing the benefits and costs of decentralizing some public services, especially those for which users can be charged. It also can be helpful in determining the feasibility of deregulation and privatization and in changing the rules for renewable natural resource use (Nicholson, 1981). The application of public choice theory can be most effective in countries where decisions are still being made about whether or not to decentralize, and where decentralization is in early stages of conceptualization. In other countries, where governments have already made the decision to decentralize, analytical techniques must go beyond public choice theory and provide guidelines for policy design and implementation.

The main limitations of public choice theory are its overly rationalistic assumptions and narrow prescriptions (Oppenheimer, 1981). There are strong disagreements among proponents of public choice theory about definitions of concepts and terms (Ostrom, 1986); assumptions and conditions (Baker, 1976); the ability to test theories (Moe, 1984) and whether the discipline is sufficiently advanced to allow for empirical testing in developing countries (Hite, 1984). The disagreements are particularly strong over whether or not public choice theories can be used in institutional analyses, especially in countries where private markets are weak or where market imperfections are widespread. Ostrom (1986: 48) points out that, "little agreement exists on what the term 'institution' means, whether the study of institutions is an appropriate endeavor, and how to undertake a cumulative study of institutions."

Institutional economists are critical of the assumption that market transactions are the only effective means of providing services and of neoclassical economists' tendency to ignore institutional factors in public policy making (Langois, 1986; Nelson and Winter, 1982). Public choice theories are rarely concerned with improving the capacity of government agencies to provide more efficiently collective goods that cannot be provided through market mechanisms, a primary concern of governments in many developing countries where the private market is still weak or embryonic.

Public choice theorists assume that people act rationally, always pursue their own economic self-interests, and will make optimal economic choices if left unfettered by government regulations and constraints. But even when decentralization has been justified on economic grounds, most governments have not attempted to decentralize primarily for economic reasons. Indeed, the economic impacts of decentralization have not usually been calculated before policies were enacted. Rondinelli and Nellis (1986) found in their studies of decentralization for the World Bank that many recent experiments with decentralization could not be assessed entirely by economic criteria because they were initiated primarily for political reasons.

Public Administration and Finance Approach

Policy analysts using public administration and finance theories usually take a different perspective on decentralization than economists using public choice theories. The neoclassical economic approach is concerned with macro-economic issues, while the policy analysis approach is concerned with specific decisions about political processes, organizational structures and financial resources. It is often, but not always, focused on micro-analytical issues. Ascher (1987: 8) concisely describes the differences between the two approaches:

> "All of the differences between the policy sciences and the neoclassical economic approach rest on the greater theoretical assertiveness of the neoclassical framework. To power a general neoclassical model, to achieve specific results, requires packing empirical assumptions of self interested rationality into that model. The policy sciences framework assumes less theory, because the choice of theory in specific applications is more inductive and more eclectic. The policy scientist either inductively discovers empirical theoretical propositions that seem to apply best, or tries several different possibilities to see where each leads and whether policy should be hedged to take into account that possibility."

Although there are substantial differences between the approaches and perspectives of neoclassical economists and policy analysts, the differences are neither insurmountable nor entirely in conflict. Ascher (1987: 8-9) points out that there is a basic difference in temperament between policy analysts and economists in that "the policy scientist will tuck the economic theories in among the possibilities, and invoke them only when a more intimate look at a particular context indicates that the economic explanation is warranted." Policy analysis attempts to go beyond, or to place in a broader context, economic factors. It takes into account political, behavioral, social, administrative and other factors that affect policy implementation.

To be useful, any application of public choice theory in developing countries must be combined with broader public administration and finance theories to assess politically feasible interventions by public and private organizations. But if public choice theories need to be made operational to be useful, public administration and finance approaches need to be embedded in a broader conceptual framework in order to make sense of their primarily descriptive findings. The study of public administration and finance in local service delivery in developing countries is quite recent, with the major work having been done in the last 20 years. The discipline has grown, not from any deductive theoretical base, but from a series of technical assistance interventions and field studies largely of a descriptive nature (Nicholson, 1981).

Despite the fact that the discipline of local government public finance has developed somewhat haphazardly, common beliefs underlie most of the work in the field. These beliefs can be summarized under five major points (World Bank, 1988):

- Financial resources need to be significantly increased at the local level to allow for more, and higher quality, public services.

- The equity of service financing needs to be improved by having beneficiaries pay a greater share of service costs, particularly for services that are "private goods" rather than "public" or "merit" goods.

- Central government transfers to local governments need should be reformed to remove disincentives for local governments to mobilize resources and to relieve the financial burdens on the central government of providing local services.

- Local governments need to examine options for more efficient provision of public services and should confine government involvement to services that cannot be provided privately.

- The overall efficiency of local government expenditures needs to be improved, requiring a shift toward performance measurement and much tighter expenditure accounting and controls.

Furthermore, much of the research in this field has been concerned principally--and often inadequately--with documenting existing practices and conditions. Field research focuses heavily on identifying the sources of local government revenue, assessing the equity and strength of those revenue sources, examining the dependence of local governments on central government transfers, identifying bottlenecks in the system of revenue generation and financial management, and examining mechanisms to stimulate greater local resource mobilization (Bahl, 1979; Bahl, et al., 1981).

By and large, public finance field research does not deal effectively with improving resource utilization (expenditure efficiency), alternative institutions for delivering services (such as private firms and voluntary organizations), or the effectiveness of intervention programs sponsored by international assistance organizations. Overall, there has been a much greater emphasis on revenue generation than on expenditure controls. This generally reflects the belief that service expenditure levels by local governments are too low.

Although both public choice and public administration and finance approaches have limitations, both can also contribute to assessing the feasibility of and the financial and organizational arrangements for decentralization. They can both be helpful in designing programs for successful implementation.

APPENDIX B

APPENDIX B

Experience suggests a number of conditions that promote participation in self-help programs. These include resource availability and control by the community; representative, pluralistic and responsive leadership within the community; shared common goals and perceptions of basic needs by community residents; and positive experience with collective action and participation. In addition, central and local governments must recognize the need for participation in service improvement programs and projects. Local governments sometimes must take the initiative in eliciting participation. Credibility and trust must be created between service providers and the community and there must be some degree of homogeneity and harmony among the residents of a community.

Self-help programs are more likely to succeed when beneficiaries can see visible gains from the services provided. Public officials must be sensitive to the potential benefits of working through traditional leadership, organizations and systems within the community; and residents should receive adequate training to enable them to participate effectively (Yeung, 1985).

In order for self-help programs of this kind to work effectively, however, they must be carefully planned and implemented. A crucial element in the success of these self-help activities has been active support from the municipal government and other public agencies, and the willingness of government officials to allow greater participation and control by voluntary and community groups in service improvement activities (UNICEF, 1982).

Among the most important managerial principles for implementing self-help programs are the following (UNICEF, 1982):

- Semi-autonomous activities initiated within the community or through voluntary organizations should be coordinated with community development agencies and with municipal government service programs soon after they are established in order to create the linkages needed to sustain them.

- Institutional support from central and local government agencies must be provided in a way that encourages the maximum use of local human and material resources for service improvements.

- Municipal governments should make contacts with community and voluntary groups only when they can make firm commitments of resources to support self-help service improvements in the community.

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- Proposals to community groups for self-help projects should be based on clearly understood agreements about roles, resources, and intended results.

- Community participation should be formalized quickly and should provide for representation of members of all relevant community interests.

- Activities for service improvement should be phased in such a way that they are completed quickly enough to show visible results, but slowly enough that they allow for adequate planning, organizing, and mobilization of resources to sustain the projects over a sufficient period of time to have positive impacts.

- The activities of publicly assisted community projects should be monitored and evaluated by the funding sources regularly so that problems can be discovered and obstacles can be overcome quickly.

- Training of community leaders should be one of the first activities undertaken in an area in which self-help activities are promoted so that they can initiate and organize service improvements and help mobilize the resources needed to carry them out.

- In the initial stages of new self-help or service improvement projects, emphasis should be given to only a few activities for which adequate resources can be mobilized and the commitment and participation of the community can be obtained so that the projects can be implemented successfully. These can serve as demonstration projects.

- Monetary and other incentives must be provided to municipal and central government employees to work with community groups during the evenings and after regular working hours when most community participation occurs.

- Provision must be made for adequate and continued maintenance of services and facilities that are created or extended by community and voluntary groups if they are to have a real impact on improving conditions in poor neighborhoods.

Experience with self-help programs suggests that completely spontaneous and autonomous activities will rarely lead to real service improvements in large cities. Usually, such programs must be initiated and organized by voluntary groups or government agencies with experience in community development. They must be supported by municipal governments, which must be prepared to maintain the services that are created through self-help efforts.

Finally, experience underlines the importance of increasing the security and stability of land occupation for the urban poor. In the past, governments have taken action against squatters and slum dwellers through legislation, eviction, relocation, and upgrading schemes that do not transfer title to land. These actions invariably increase the insecurity of squatters and slum dwellers and undermine the effectiveness of service upgrading and community development programs. When security of land tenure is not provided to squatters it is extremely difficult to encourage self-help activities. Without secure rights in land occupation, slum dwellers are not motivated to contribute their time, money and energy to upgrading services.

The best means of creating security and stability of land occupation will, of course, differ from country to country. One successful approach has been the sale of land to squatters through national mortgage banks. Provision of dual systems of tenure--that is, community ownership of land and family ownership of dwellings--combined with sites-and-services programs, is also an effective way of securing land occupation in some communities.

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