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THE LOCAL REVENUE ADMINISTRATION PROJECT:
A SUMMARY OF ACTIVITIES

LOCAL REVENUE ADMINISTRATION PROJECT
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The focus of the Local Revenue Administration Project (LRAP) is on the development and implementation of techniques (a) to decentralize government finances and (b) to plan for and meet recurrent costs of development activities. These two issues are of growing concern in most developing countries and are central to the assistance strategies of nearly every major lender. After reviewing the importance of these issues, we indicate the progress which the LRAP has made in understanding them and in assisting governments of developing countries to design policies which strengthen local governments while encouraging private sector led economic growth strategies.

Issues

The terms, decentralization and recurrent costs, are prominent in discussions of the problems and strategies of development, and thus a clear understanding of the issues they entail is desirable.

Fiscal Decentralization

Fiscal decentralization, particularly strengthening the operational effectiveness and financial capacities of local government, is an integral part of the development strategy of many developing countries. The impetus for fiscal decentralization comes from several related objectives. The first is the desire to get government closer to the people and thereby to increase citizen participation in the government process. There is increasing recognition of the failure of centrally planned and controlled development strategies. One hoped-for effect of a decentralized strategy is

to increase the accountability of local officials to the population in both rural and urban areas and thereby to increase the efficiency and effectiveness of the public sector.

A second objective of fiscal decentralization is to increase resources available for public sector activities. Social overhead capital is necessary for economic growth, but expanding and utilizing this capital requires investment and recurrent spending on operations and maintenance. Local governments, being closer to the people, have advantages in mobilizing the necessary resources since there is a more obvious link between resources raised and benefits realized.

Finally, it must be recognized that fiscal decentralization strategies are important to national goals of slowing the rate of migration to large cities where the costs of providing even minimal services are considerably greater than in rural areas. While it is not clear how much this population flow can be affected by decentralization policies, research has indicated that inadequate public service levels in rural areas and small towns is one of the reasons for urban migration.

It should be stressed that fiscal decentralization is very much in keeping with a strategy to minimize the economic disincentives associated with many existing central government tax structures in developing countries. Indeed, as the review of LRAP projects below indicates, our policy recommendations have emphasized benefit-based taxes and charges which, because they link payments to benefits, do not have the same general disincentives as do centrally-imposed general tax levies.

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Fiscal decentralization raises research and policy questions beyond those of imposing and collecting taxes and fees at the local level. Nontax methods of providing resources to local governments, such as through intergovernmental grants and loan finance, have also been of central interest to LRAP. Finally, successful fiscal decentralization and strengthening of local governments is more than providing additional resources. Budgeting and financial management skills are necessary if local governments are to function efficiently; similarly, an administrative framework which encourages the strengthening of local governments and which provides for local public choice is necessary if fiscal decentralization is to work.

Recurrent Costs

The recurrent cost problem is closely related to fiscal decentralization. Central governments and donors are often so occupied with the objective of encouraging capital investments that provision for maintaining and/or servicing these investments is ignored or is inadequate.

The LRAP has been addressing three separate dimensions of the recurrent cost issue. First, there is the problem of how one goes about identifying recurrent cost needs. This suggests a need for recurrent cost projections for specified projects, i.e., identifying the additional annual revenue needs necessary to sustain capital projects.

Second, there is the problem of how a local government might find the resources necessary to meet these recurrent cost requirements, e.g., from user charges or from general taxes. In either case, an important question is whether the project generates local benefits that might be captured in the tax base.

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Third, the recurrent cost problem raises the question of setting up an appropriate institutional response. There are alternative approaches available, e.g., from general purpose local governments, semi-autonomous municipal investment corporations, or decentralized central government operations. Each has its own advantages and disadvantages which depend, in part, on the overall institutional setting unique to every country. Detecting these attributes in diverse settings requires study and analysis.

Project Accomplishments

The Local Revenue Administration Project has consisted of long-term studies in five countries (the Philippines, Bangladesh, Burkina Faso, Peru and Ecuador), numerous short-term consultancies and broad-based comparative research. Both long-term studies and short-term consultancies commonly focus primarily upon policy recommendations of immediate interest to the host country and the sponsoring AID mission. The short-term efforts have tended to be narrowly focused on a single topic while the longer term studies are broader in scope; nevertheless, policy recommendations are the primary purpose of each. Research, particularly comparative research, is meant to advance overall knowledge of the field and is primarily of interest to other scholarly researchers as well as to the development-oriented community at large. Our work in this area takes as its starting point the findings made in the more focused individual country studies.

A complementary, yet vital, activity of the LRAP has been its information dissemination and networking activities. Recording our findings and sharing them on a timely basis with researchers and institutions throughout the world is a primary concern of the Project.

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Policy Recommendations

Policy researchers soon realize that the fruits of their efforts seldom produce results overnight. This statement is particularly true when recommended reforms are intended to alter policies which have been in place for many years or when recommendations require the transfer of power to others. Such is, however, the common predicament of decentralization policies which, due to their very nature, require central governments to transfer influence to lower level governments.

Philippines. Acting upon the advice of an LRAP consultation, a department was shifted from the Ministry of Local Government to the Ministry of Finance so as to improve the efficiency of local property taxation. The Report of the long term study of local finance in the Philippines provided much of the impetus for the Local Resource Mobilization (LRM) project which is currently underway in the country.

Bangladesh. A local government bureau has been created and given the responsibility to monitor and evaluate central government transfers to local governments on a continuing basis. This bureau's evaluation criteria are to take into account at least some of the issues raised in the original LRAP Report. A recent letter from the Ministry of Local Government indicates that they will be establishing a "financial management cell" within the Ministry as we recommended in our Final Report. The same letter endorses our proposal that additional training in budgeting and accounting be provided to local government personnel. A new model tax schedule has been written which increases local autonomy and provides for greater revenue capacity in local governments.

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Peru. The Peru project was primarily an institution-building project rather than a policy project. Numerous training materials were prepared as a part of the project and computerization of local record keeping was accomplished under LRAP's guidance.

Burkina Faso. The two phases of the Burkina Faso project did much to draw the attention of the central government to issues of recurrent costs and local government finance. This is a difficult task in any developing country, but especially so in a francophone country. The two final reports are currently being used by a group of high level policy makers in designing a new local revenue structure. The projects have also persuaded the Government of Burkina Faso to collect more information regarding the activities of local governments in the country and to use and disseminate these data.

Ecuador. The project is currently underway, hence it is impossible to document fully its accomplishments. Nevertheless, in early 1986 LRAP helped in redesigning the intergovernmental grants formula to be used in the next fiscal year. It is also anticipated that the income tax rate schedule will be altered during the summer of 1986 based upon simulations of revenue and distributional effects of alternative rate structures produced by the project.

Jamaica. From one short-term LRAP consultancy in 1983, the Jamaica Tax Structure Examination Project was born. Thus far this project has resulted in a restructuring of the Government's income and property tax systems.

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Grenada. The current tax reform efforts of the Government of Grenada are the fruit of LRAP's initial short-term research during the summer of 1984. Even during the preliminary work, LRAP worked directly with the Financial Secretary in revising the income tax schedule in early 1985. Still being used is the computerized budget projection model developed for the Ministry of Finance during the short term project.

Other Efforts. Other short-term advisory work in Tanzania, Egypt, Guatemala and Haiti have each drawn commendations from the country missions. Furthermore, there is a strong likelihood that additional policy research will result from these efforts in Egypt, Guatemala and Haiti.

Research

While the country studies have tended to emphasize specific policy recommendations, they have also resulted in research findings of interest in their own right and, as well, have produced findings which, when viewed in a comparative setting, provide knowledge of how different institutional environments influence local government behavior.

The project reports have constituted important research outputs. It is seldom appreciated that local government finance is an unexplored subject in most developing countries. For example, in Bangladesh we found no single comprehensive documentation of how local government institutions were supposed to, or really do, work. Our broad-based analysis and reports have, therefore, constituted an important advance in the understanding of the local government sector of the economy.

In a similar vein, since much of our work is empirical in nature, adequate data on local government revenues and expenditures have been

necessary for our analysis. Central governments often do not gather such data; hence, another important output of our work has been the collection of such data from the local level. The data collected and initially analyzed by LRAP were subsequently used by Bangladesh researchers in helping to prepare their Government's new Five-Year Plan. In Burkina Faso the data are being used in conjunction with the current revision of the local government revenue structure.

Information other than that reflecting local government activity have also been collected and used in the LRAP projects. The activities of local government enterprises were analyzed in depth in the Philippines project. In Bangladesh, data were obtained in conjunction with a village case study to ascertain the extent to which cultural and political factors influence the success or failure of the lowest level of government. Opinions of residents regarding willingness to pay additional local taxes were obtained and analyzed in Burkina Faso. All these data collections and subsequent analysis constitute important additions to the general knowledge of local revenue systems in developing countries.

Finally, within the individual case studies data obtained from central government sources have been used to test particular hypotheses regarding local government behavior. For example, in the Philippines we confirmed the hypothesis that particular grants would have a stimulative effect on development fund spending--an hypothesis commonly tested within developed countries but seldom analyzed in the LDC context. Likewise, in Ecuador the tax effort implications of the current and alternative government grant programs are being tested statistically.

In addition to the individual case studies, the results of our work have been and are being prepared for wider dissemination among researchers and practitioners. A significant portion of this research has already been published in refereed journals or in book form (see attached list). In addition, some of the research has been disseminated in the form of Occasional Papers and Monographs of the Metropolitan Studies Program of the Maxwell School. Finally, considerably more output from the project is currently being prepared for publication.

One example of general local government revenue administration research is the paper by Bahl, Miner and Schroeder published in Public Administration and Development which summarizes and evaluates alternative approaches to the resource mobilization question.

A second strand of research that has been outside the usual domain of public finance concerns the role of voluntarism and local social organizations in supporting rural development. Miller's work in this area has been pathbreaking.

The long-term case studies are not immediately appropriate for publication in traditional academic outlets such as books and journal articles. Nevertheless, much of this work has been recast to be made appropriate for scholarly audiences with journals such as the Asian Journal of Public Administration, Journal of Developing Areas, Third World Planning Review and Asian Survey used as publication vehicles. In addition, the Philippines book, Financing Local Government in the Third World, has drawn a very positive reaction.

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Finally, the work currently underway in the areas of research on the uses of intergovernmental transfers in developing countries, public choice mechanisms in Third World countries, and financing decentralization including empirical analyses of the extent of decentralization, should all prove important additions to the scholarly knowledge of local government resource mobilization in LDCs.

Dissemination

The Metropolitan Studies Program of the Maxwell School has earned a world-wide reputation as a center of excellence in public finance in developing countries. Much of this reputation is due to the dissemination activities of the Program supported by LRAP.

The center-piece of the dissemination efforts is a quarterly publication, Revenews. This four-page newsletter is sent to nearly 1,000 persons and institutions on all continents with the bulk of the overseas mailings sent directly to development training institutions located in developing countries.

The group which receives the quarterly newsletter also receives announcements of all Occasional Papers and Monographs produced by the Local Revenue Administration Project. In addition, we send complimentary copies of all reports to over 50 persons and groups including such international outlets as the IMF Fiscal Library, the International City Management Association, the World Bank, the Asian Development Bank in Manila, and the International Bureau of Fiscal Documentation in the Netherlands.

The network of experts in development finance which has been facilitated by the efforts of LRAP has resulted in a large number of

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presentations by the principals of the project in a wide variety of locations. For example, Bahl has made formal presentations at USAID, at the World Bank, at Harvard's JFK School of Government and at MIT's School of Urban Planning. Schroeder was a participant in conferences on decentralization and local finance held in Comilla, Bangladesh, in Bloomington, Indiana and at UNCRD in Nagoya, Japan. Miller has presented numerous papers to meetings of professional associations. Greytak was an invited participant to the annual meeting of the International Union of Local Authorities in San Jose, Costa Rica. Miner was invited to present his research findings at the International Conference on Development Finance in Paris.

Finally, it should not be ignored that, in conjunction with our long term efforts, LRAP participants have presented a large number of seminars and talks in developing countries to help develop their ability in analyzing local government issues. In the Philippines Bahl and Schroeder presented several different talks or seminars in conjunction with the in-country project; the Bangladesh team presented five seminars in country; and two presentations were made in Burkina Faso.

Future Activity

In the remaining life of the current LRAP project, two core activities are to be emphasized--the role of public choice in the provision of local public goods in developing countries and a capstone analysis of fiscal decentralization.

Public Choice and the Provision of Local Public Goods in LDCs

There is a vast literature on the issue of the provision of local public goods in developed countries. Though heavily theoretical and econometrically oriented, this work has been aimed at some very policy-relevant questions:

- Why do expenditures grow and how might they be controlled?
- How do exogenous, "uncontrollable" factors (population growth, density, energy costs, etc.) effect the revenues, expenditures and budget balance of local governments?
- How do national economic policies (inflation, recession, GNP growth) effect the demand and supply of local public goods?
- What goods, services, and taxes might best be assigned to local governments?
- Can local government fiscal decisions be altered by the provision of incentives (and disincentives) such as grants-in-aid (and tax limitations)?

The literature on this subject, however, has never been formally and carefully extended to the LDC setting.

Our theoretical extension will provide a framework in which we might better understand the factors that shape the composition and level of local government budgets. The question has considerable short-run relevance to USAID. A good example of this is the recent interest in the potential for mobilizing additional local government revenues for purposes of primary education. Essentially, the question is whether the dedication of locally-raised funds to primary education would induce local residents to pay increased taxes. A second question is whether such a scheme, in order to work, would require a change in the institutional arrangements at the local

government level. The problem is that there is no existing framework in which to think through either dimension of the issue. What kind of inducement might work, how should it be designed, and what sort of institutional arrangement has the best chance for success? It is this sort of gap in knowledge that might be filled by a careful reconsideration of the local public goods question in a developing country setting

The project will lead to a monograph with two parts. The first will attempt to set the theoretical and institutional framework for understanding local government fiscal decision-making in LDCs, and the second will raise the question of how various incentives might stimulate increased revenue mobilization. As will be seen from the discussion below, this will be no simple task.

The Determinants of Local Public Expenditures. The goal here is to produce a carefully thought-out paper which helps us understand how local fiscal decisions are made. Using what we have learned about how these governments operate, and about their institutional constraints, we will carefully consider the applicability of the three major approaches to fiscal determination. The median-voter approach argues that local residents have certain preferences which they reveal to local officials through voting. Subject to certain constraints, these officials maximize their probability of staying in office by producing a level and mix of taxes and expenditures which matches local preferences. All of this is done, however, subject to constraints imposed by total resources available in the economy, administrative skills, central government mandates or limitations, etc. Obviously, the median-voter model does not exactly fit

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the LDC case--local elections are often not held and local officials are often central government appointees--but it might be argued that there is a kind of voting process that takes place. For example, local residents in the most centrally controlled settings will show their displeasure over increased bus or water fares, public employee layoffs, or poor public service levels. For our objectives, however, the most important question is whether the absence of voting and representation would lead to an underprovision or overprovision of local public goods.

The second most prominent model is a bureaucratic approach. Under this version of expenditure determination, local government bureaucrats attempt to maximize their share of the budget and consequently local public goods are overproduced. In the developing country setting, this might lead to some interesting observations. For example, local government budgets are very often counted in terms of numbers of employees, rather than total monetary amounts, and revenues/user charges dedicated to public enterprises and special purposes may likewise fuel overprovision.

The third approach is a rule-making model or an organization theory model. In this case, a more legalistic view of the expenditure determination process is taken. For example, tax rates and yields are limited by central government restrictions, higher-level mandates determine the amount that can be spent for various functions, teacher-student ratios are strictly prescribed, etc.

In fact, the determinants of local spending in developing countries are probably a mixture of these explanations. What we intend to do is both review the theory and its application, and then draw on the experience we

have had in many countries to see the extent to which the process more or less matches these various explanations of budgetary growth determination. In addition to creating a framework for analysis, what we would most like to do is identify which are the most binding constraints and therefore what kinds of policies might free up the decision-making process.

The Use of Incentives. One important reason for developing a framework to understand local budget determination is to understand how public policy might be used to reshape fiscal decisions and perhaps to mobilize more resources for local development.

There are several kinds of incentives that have been used in developing countries, or at least have been talked about, as methods to stimulate the mobilization of local government revenues. The first is a set of price incentives. In this case, the higher level government gives matching grants, grants with tax effort provisions, makes loans at subsidized rates that require repayment, and mandates coverage of recurrent costs, etc. The question is whether such price incentives can actually stimulate local fiscal effort. There are a number of possibilities. If improperly designed, such central subsidies have several counterproductive effects. Grants may reduce local fiscal effort if they are substituted for local taxes; they may leave recurrent costs uncovered; and such subsidies may have few "takers." The latter case occurs when other kinds of constraints (e.g., administrative) are the true binding limitations.

Another incentive program relates to the reassignment of functions. If certain local goods can be assigned to the local government, then residents might be more willing to pay higher taxes to see these goods

provided. The most often mentioned examples in the past have related to public utilities and transportation which are financed through the payment of user charges. However, there are other possibilities where similar incentives may be present. Our work, and that of others, points to local primary education, health care, public markets and toll roads as examples of local public goods which might provide an incentive for increased payments by users.

One might provide an incentive through the removal of administrative costs. This is a very important issue because the administrative bottleneck may well be the most binding constraint facing local government finances. If project assistance included technical assistance to improve local tax administration, or if central government grants were used as inducements to improve local tax administration, or even if local tax systems were simplified to make the administration easier, a major bottleneck to revenue mobilization might be removed. There are a number of ways in which the administrative constraint might be addressed, some of them involving central government actions and others suggesting a role for external donors to play.

We need to know much more about incentives. This paper can assist by outlining the state of our knowledge and by putting it into a framework. What we would propose to do is draw on the information gathered in the course of our fieldwork and research in order to identify specific instances where various kinds of incentives have been tried, and to attempt to pull out the results from these policies.

The Theory and Practice of Fiscal Decentralization

The final core research activity will produce a single volume that captures the accomplishments and findings of the project. For those who

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would want to look no further at detail, this work will pose the basic questions, lay out the findings within a framework, and place the work in a context of other research in the field

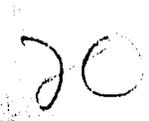
There is a great deal of work to be done in producing this volume. In addition to an exhaustive review of the literature, this analysis must integrate an enormous amount of our own research and fieldwork. This volume is especially needed because of the paucity of systematic work in this area of study. There is really no one volume of work that addresses the issue of fiscal decentralization in LDCs. Many have written about and discussed the decentralization of government taxing, spending and budgetary decision-making as though they were well underway. In fact, there has been little empirical verification of whether this is actually happening, analysis of the process by which it happens, or attention to the reasons why it should happen.

The state of the art manuscript will bring what we have learned into context and point the way toward policy formulation. To achieve this goal, the manuscript must cover five subjects: (a) the different meanings of fiscal decentralization, (b) the different processes by which fiscal decentralization may take place, (c) the evidence on the extent to which such decentralization is occurring, (d) the factors that cause or determine decentralization, and (e) the policy implications of these findings for LDC governments and donors. Each of these concerns is reviewed below.

Defining Fiscal Decentralization. The first part of the study will address the question of the definition of fiscal decentralization, and the process by which fiscal decentralization "works." Decentralization means

many things to many people, and we need to clear up the confusion. Among the more important questions to be answered are what constitutes a true passing of governmental decision-making to the local level, what is the relationship between fiscal decentralization and economic deconcentration, and how might one measure and monitor fiscal decentralization? With respect to measurement, there are questions of whether to cast the definition in terms of revenue share, expenditure share, or general budgetary shares. The best way to answer these questions is in terms of the actual experience in several countries.

More important in terms of definition, however, are the different "models" of fiscal decentralization. There are many degrees and kinds of decentralization, and we need to understand better the differences and to put them in a comprehensive framework. We will explore the three major models: (a) the legal authority model which defines decentralization in terms of the powers given to local governments, (b) the management model under which decentralization is defined in terms of who actually controls the decisions and day-to-day operations of the local government, and (c) the voter model wherein decentralization can be defined in terms of citizen participation in the decision-making process. Theory suggests that some of these models will be stronger forces for decentralization than others, hence inherently "better." Our fieldwork, on the other hand, suggests that the practice of organizing for decentralization varies quite widely and that various combinations of the models underlie the movement toward or away from decentralization in various countries. For example, Indian local governments have autonomy in the sense of voter participation and some



measure of control over local taxation. Their day-to-day management is however, very largely influenced by a state government appointed administrator and by a set of strictly prescribed fiscal limits. In the Philippines, on the other hand, there is some degree of local taxing autonomy but there is limited voter participation and the municipal assessors and treasurers are, in fact, central government employees. The job we propose to undertake is to sort out the implications of various institutional arrangements for fiscal decentralization.

The Institutional Setting. The second section of this research will involve a description of the systems in which fiscal decentralization takes place. One might begin this description by making a clear distinction between devolution and decentralization in terms of what potential each suggests for increased local area revenue mobilization and local expenditure decentralization. In particular, we intend to contrast the British, French, and Latin American systems. We propose to use our case study work in Burkina Faso plus what we know of the systems in other countries with French-based administrative structures to consider the potential for fiscal decentralization in highly centralized settings. An interesting point to be addressed and understood is whether there can be significant local inputs to the fiscal decision-making process and significant potential for increased local revenue mobilization in situations where there is not strong local government. Contrasting such systems with those where there is a stronger tradition of local government--in terms of the development of local tax systems--has taught us much about the relative effectiveness of alternative methods of getting government closer to people.

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Another view of the system by which fiscal decentralization takes place has to do with differentiating between functional decentralization--the creation of special purpose districts--and jurisdictional decentralization--the emphasis on creating more autonomous and general purpose local government units. Both are effective methods for capturing economies of scale while keeping the delivery of public services and taxation powers at the local level, but they are quite different routes to decentralization and lead to different kinds of local participation. Again, we will draw on our case studies, plus the additional literature in the field, to lay out both (a) the ways of thinking about the relative merits of special districts and general local governments, and (b) the actual practice and its impacts. Finally, this research will attempt to sort out the implications for fiscal decentralization of operating within a federal versus a unitary state.

Fiscal decentralization has gone farther in some of the large federal countries, e.g., India, Brazil, Nigeria. It is important to try to explain the extent to which this is due to size, geographical diversity, and cultural differences as opposed to something inherent in the federal system which promotes a greater degree of decentralization. In fact, it is as easy to decentralize under a unitary system as under a federal system. We intend to develop this hypothesis and explained result in terms of the observed practice in several developing countries.

The Trend toward Decentralization. The objective of a third part of this effort is to measure the extent to which fiscal decentralization has actually been occurring in developing countries, in order to detect

trends. We would propose in this chapter to assemble as much data as possible and present both cross-section comparisons of fiscal decentralization and time series for particular countries to show how the weight of tax and expenditure responsibility has shifted toward or away from central governments. This work will build on our past field analyses, some model building we have done, and the empirical analysis currently underway.

This analysis is using the available aggregate data supplied by the International Monetary Fund and also data supplied in AID reports, country studies, specific World Bank studies, and OECD and United Nations analyses. Finally, we will produce an addendum on the problems and possibilities of measuring decentralization and suggestions as to how governments might monitor the extent to which fiscal activities are being decentralized. We hope to suggest a better way to collect and assemble the information on local finances.

This part of the research activity is especially important. There is a great deal of mythology about how much decentralization has actually occurred, and it is important for us to make a more definitive, empirically-based statement. The available data may not be totally revealing, as we have argued above, but will be the most feasible basis for our discussion of the prospects for fiscal decentralization. Finally, this work will result in a clear statement of the various places that one might look for data on sub-national government finances, and will document the strengths and weaknesses of each of those data sources. This exercise, in itself, would be an important contribution to the field.

The Determinants of Fiscal Decentralization.

A fourth section of this research will deal with the determinants of fiscal decentralization, i.e., why do governments decentralize their revenue-raising and expenditure decision-making functions? One might take two approaches to trying to understand this question. The first is purely theoretical: We may try to understand the forces which "should" cause governments to decentralize. It is important to develop a theoretical framework because ultimately we want to be able to predict how various policies would cause governments to behave. The other approach will be to examine those characteristics they have in common. Accordingly, the approach taken here will necessarily involve both model building and the review of other models to suggest relationships and hypotheses.

Our work on this subject has led us in the direction of three hypotheses as to the determinants of fiscal decentralization. The "incentives model" suggests that local revenue mobilization will be enhanced if local governments and local citizens are given a good reason to tax themselves, i.e., through matching grants, the identification of desirable local services to be financed, the provision of credit for "visible" local capital investments, etc. The "administrative model" suggests that the major bottlenecks are really in the area of ability to levy and collect taxes. Therefore, once these bottlenecks are removed, the fiscal strength of local governments will increase substantially. The third is the "economic development model," under which one would argue that tax "handles" and the demand for public services increase dramatically with economic development and, consequently, increased local fiscal activity simply "happens" with economic growth.

These three models are developed as alternative and joint explanations about why some governments have decentralized their fiscal activities more than others. Drawing on case study materials, we attempt to give specific examples of how removal of constraints or provision of inducements could stimulate local revenue generation. In addition, we attempt some econometric estimates of these relationships. The conclusion of this section, we hope, will be some advice to both external donors and LDC governments about policies to increase local area revenue yield. What kinds of projects, in what particular institutional settings, are likely to offer the greatest payoff? Here we will consider cases in specific countries of actions such as tax campaigns, property assessment programs, etc.

Institutions and Policy Options. This volume will conclude with a set of lessons and directions for policy. While we cannot now recite the complete list of conclusions, we can suggest four central issues:

- One must strengthen the central government administration and control apparatus in centralized LDCs before one can strengthen the local government's ability to mobilize revenues;
- Fiscal incentives can work to stimulate revenue generation, but their design must be proper;
- The government should not try to do too much with a single set of public policies, e.g., to attach goals of fiscal decentralization, income distribution and land-use control to the same set of public policies may run the risk of achieving none of the objectives effectively;
- It is necessary to find a way to measure and monitor the degree of fiscal decentralization. This is especially important because one needs to instill a sense of accountability in local government fiscal decisionmakers.

The question of institutions is vital to understanding the policy routes open. One of the major impediments to fiscal decentralization in developing countries is that the institutional development is not conducive to growth in local participation. In some cases this situation can be changed by redefining institutions, but in others it is necessary to work within the centralist model which has been laid down. Even in the latter case, however, it is possible to develop more fully the local tax administration, to create credit institutions for local governments, to redefine the tax and charging powers of local governments, etc. The potential for these institutional rearrangements to increase local revenue mobilization will be systematically analyzed in this final portion of the volume.

Follow On Analysis

While the LRAP has made good progress in understanding the issues associated with local revenue administration in developing countries and in providing policy advice in this area, additional important work remains to be done that will both build on our achievements and advance theory and practice in new and largely unexplored directions. We see several different strands of policy research within the subject. One issue which deserves more study is the determination of the demand for local public goods in developing countries and the ability of local governments to respond to this demand. Included in such work would be an extension of the public choice analysis discussed above but with additional theoretical and empirical-based research into the questions of public service production and personnel administration.

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A second area of highly applied research which is directly applicable in a wide variety of developing countries is the role which small computers can play in the local government financial administration process. There is obviously a large demand for such services--for record keeping and also for budgetary analysis. It is not obvious, however, how such capital investments can be made most effectively and what sort of training must accompany such capital investments and what recurrent costs will also have to be met with computerization.

A third area of research concerns how local governments and decentralization programs fare within the broader policy arena that features central government tax reform, structural adjustment and debt restructuring. This subject is almost entirely ignored in macro policy discussions and has not been explored either theoretically or empirically. Yet, if decentralization is seen as an important tool for implementing development initiatives, it is crucial to learn more about how such policies are likely to be affected by the macroeconomic policies undertaken by central governments. While the analyses of LRAP have not ignored macroeconomic settings, the implications of fiscal, monetary or debt policy changes at the central level on local governments have not been pursued.

LIST OF LRAP FACULTY PUBLICATIONS SINCE 1980

- Roy Bahl and Johannes Linn, "The Assignment of Local Government Revenues in Developing Countries," in Tax Assignment in Federal Countries, ed. by Charles McLure. Canberra: Australian National University, 1983.
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