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**Research in Local Government
Finance and Administration: Final
Report of the Local Revenue
Administration Project**

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FOREWORD

The Local Revenue Administration Project (LRAP) represented one of the first major, sustained efforts by the U.S. Agency for International Development (AID) to understand better the roles that local governments in Third World countries might play in the development process. The Project, which got underway in 1979 and was finally completed in 1988, undertook a large number and wide variety of both long-term and short-term research efforts in well over a dozen different developing countries in Asia, Africa, the Middle East, Latin America and the Caribbean.

This paper represents the Final Report of LRAP project activities including brief descriptions of the bulk of the long- and short-term research efforts as well as a compilation of the research outputs produced from these efforts. While the diverse nature of the activities undertaken in countries with considerably different local government systems and facing a wide variety of policy issues makes it difficult to generalize the findings from this Project, some of the more general lessons learned from the efforts are also contained in the Report.

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April 1989

TABLE OF CONTENTS

	Page No.
GOALS AND OBJECTIVES	1
ACTIVITIES AND OUTPUTS	3
Long-Term Studies	4
<i>The Philippines</i>	4
<i>Bangladesh</i>	5
<i>Burkino Faso</i>	7
<i>Peru</i>	9
<i>Ecuador</i>	10
Short-Term Research	11
<i>Philippines</i>	12
<i>Tanzania</i>	12
<i>Jamaica</i>	13
<i>Lebanon</i>	13
<i>Egypt</i>	14
<i>Granada</i>	14
<i>Nepal</i>	15
<i>Other Countries</i>	15
Core Research	15
Center for Research on Local Government Finance and Administration	17
LESSONS LEARNED	19
APPENDIX A: REPORTS, PAPERS AND MONOGRAPHS	24
APPENDIX B: BOOKS, DISSERTATIONS, ARTICLES AND CHAPTERS IN BOOKS	33

RESEARCH IN LOCAL GOVERNMENT FINANCE AND ADMINISTRATION: FINAL REPORT OF THE LOCAL REVENUE ADMINISTRATION PROJECT

In late 1979 the U.S. Agency for International Development (AID) entered into a cooperative agreement with the Maxwell School at Syracuse University to undertake a project designed to study methods for local governments in developing countries to improve their abilities to mobilize and administer resources. From that initial cooperative agreement grew the Local Revenue Administration Project (LRAP). Since its inception the LRAP has provided technical assistance, both short- and long-term, in more than a dozen different Third World countries; has produced numerous books, articles and reports; and is known throughout the world as a center of excellence in research and training in public finance in developing countries.

This final report documents how the LRAP has accomplished the objectives and goals of the Project and compiles a comprehensive record of the Project outputs including the lessons learned. The next section reviews the goals and objectives of the Project including the role of local revenue administration in the development process in Third World countries. That discussion is followed by a review of the activities undertaken and outputs generated by the LRAP. Finally, we review the principal lessons learned from this experience. Two appendices contain lists of the published books and articles and reports that resulted directly or indirectly from the Project.

Goals and Objectives

AID's request for proposal under which the LRAP was created stated that the purpose of the Project was

"...to assist the recipient, as a resource center in local revenue administration, in developing theoretical and operational approaches to the financing of rural development which encourage and support local community initiative and control over programmatic and funding decisions in the less developed countries." (p. 1 of Program Description)

Two related rural development issues are raised in this statement. One focuses on mobilizing the resources necessary to finance the recurrent costs associated with the maintenance and operation of rural development activities; the second pertains to decentralized decision making in developing countries. The various activities undertaken by the LRAP have generally addressed one or both of these issues.

The inability or unwillingness of central governments to meet the recurrent costs of development projects means that if a project is to be sustained, some source of revenue must be found to provide such funding. When the benefits from such projects are localized, it is reasonable to look towards local institutions, particularly local authorities to carry out that funding. Developing fiscal instruments capable of mobilizing resources at the local level in an equitable fashion and in a manner that is feasible within the local cultural, political and economic environment was, therefore, viewed as one principal area of policy research of the Local Revenue Administration Project.

Decentralization of public sector-led rural development efforts has also commonly been emphasized within the Agency for International Development as a way to provide more efficient outcomes. Finding appropriate financing mechanisms which yield sufficient resources to meet recurrent costs while permitting important decisions to be made locally by those most directly affected by the activity is, however, difficult.

Relatively autonomous local governments have for some time been looked to as key actors in the development process. Lady Hicks, in her seminal book *Development From Below*, was one of the first to argue forcefully for reliance on local governments in guiding development efforts in low-income countries. Yet, in the 20 years following the publication of that book, there was little systematic study of local governments in developing countries and of the methods that might be used to strengthen these institutions. The World Bank in the 1970s had commissioned a set of studies of local government finance in a set of *urban* local governments in

major cities throughout the developing world; however, the literature on rural local bodies remained sketchy at best. Much of what had been written consisted of monographs and research reports focusing on a few selected localities addressing primarily the general issues of administration and decision making within local governments; little space in academic journals was devoted to the topic of rural local government finance. Perhaps the most significant weakness in the research previously conducted on local government finance in less developed countries was the almost total lack of any hard empirical evidence on which to base the findings. One primary objective of the LRAP would be to fill this void.

With new local government finance policies the pressing concern and with a narrow knowledge base on which to build such policies, the two primary objectives of the LRAP could be identified as:

- To increase the general understanding of how rural local governments function in a Third World setting;
- To assist in designing policies and practices that might improve the efforts of local governments to mobilize and administer resources.

Activities and Outputs

Several different types of activities were to be carried out under the Local Revenue Administration Project. Long-term, in-country studies were to be conducted in selected countries; short-term, directed research was to be provided to individual USAID missions; and more general, cross-country studies were to be carried out under the auspices of the AID-Washington's Science and Technology Bureau. In addition, the LRAP was to help create a center of research activity on local government finance and administration which would disseminate the accumulated knowledge throughout the world. The LRAP has succeeded in all of these areas.

Long-Term Studies

Five long-term, in-country studies were successfully completed during the course of this Project. Here we will only highlight the different emphases and activities undertaken in each and summarize the general findings. Greater details are available from the Final Reports produced for each of these Projects.

The Philippines. The Philippines provided the venue for the LRAP's first major effort at sustained research and technical assistance in rural local government finance in developing countries. Three senior faculty of the Metropolitan Studies Program at the Maxwell School-- Professors Roy Bahl, David Greytak and Larry Schroeder--together with a consultant, Professor Kenneth Hubbell of the University of Missouri (Kansas City), conducted this research during 1980 and 1981. Professor Bahl led the effort. The team also included a doctoral student, Benjamin Diokno, who upon completing his degree returned first to a teaching post at the University of the Philippines and is now Deputy Minister of the Budget in the Aquino Administration.

The research focused on ways by which rural local governments in the Philippines, particularly the municipalities, might be strengthened through improved resource mobilization and administration. Mechanisms emphasized in this effort included the real property and the business license taxes, intergovernmental grants, local public enterprises, especially markets and slaughterhouses, and improved flows of local government credit. In addition to analyzing the structures and administrative practices employed for each of these revenue instruments, general financial administration, including budgeting and cash management, were also investigated.

The general approach taken in this effort involved several three- to six-week visits to the Philippines by the research team. During these visits they met with both central and local government officials and with other individuals knowledgeable about local government finance mechanisms in the Philippines. During their field visits they examined the records maintained by the local bodies and undertook to understand the methods used in administering the local

government. Data for a cross section of municipalities and cities were also obtained from records maintained by the Commission on Audits and from the Census Bureau. These data were then analyzed so as to understand better the revenue growth, equity and neutrality implications of the various revenue instruments. The results of these analyses, together with analysis of the administrative practices used, were compiled in an in-depth report to the Government of the Philippines. Recommendations were made concerning how the revenue instruments and administrative practices might be altered to strengthen the local governments in the country. The report was later turned into a widely disseminated book, *Local Government Finance in the Third World: A Case Study of the Philippines* (Praeger Publishers, 1983).

A significant feature of the effort in the Philippines was the collaborative approach used in the research. While the final report was solely the product of the LRAP team, the researchers also worked in tandem with three host-country institutions--the National Tax Research Center, the College of Public Administration of the University of the Philippines and the Ministry of Finance--which conducted additional research on the same set of issues. A good portion of each LRAP team visit was spent working side by side with these host-country researchers discussing appropriate research methods and strategy. Team members were also called upon to give a series of lectures on public finance in general and on Philippines local finance in particular.

Bangladesh. Unlike the Philippines project, which was a self-standing project, the policy research effort in Bangladesh was conducted in conjunction with the USAID-sponsored Zilla Roads Maintenance and Improvement Project. Rural roads maintenance is a continuing and significant problem in Bangladesh; however, both the Government and AID recognized that if any improvements in the maintenance process were to be sustained, improved methods of financing these efforts would also be necessary.

Again, the approach used in this project was to assemble a senior LRAP research team consisting of Professors Jim Alm, Roy Bahl and Barbara Miller and led by Larry Schroeder. The team members visited the country numerous times throughout the 1982-1984 course of the

project. They were assisted in the data-gathering and research efforts by three doctoral students from the Maxwell School, Hasan Murshed, Muin Uddin and Showkat Khan, each of whom has written dissertations associated with this research.

The previously-cited paucity of hard data from local governments in less developed countries certainly characterized Bangladesh. No one had any accurate information about the extent and composition of local government activities in the country. Two of the students spent approximately six months in country traveling from locality to locality collecting fiscal data from three different tiers of rural local governments--the district, the thana and the union--as well as from certain urban local governments. At many of these sites they also interviewed local government officials concerning the administrative practices used in the locality. For this effort they used a pretested questionnaire, one of the first data collection efforts of this type used anywhere by finance researchers in the Third World. The third doctoral student lived in a village in the northeastern portion of the country collecting both financial and social data concerning the relationship between the local power structure and financial practices carried out in the lowest level of local government, again a unique data-collection effort within public finance research. The data collection efforts pioneered in this project resulted later in a more serious effort by the Government of Bangladesh to collect similar data.

A political event external to the research project occurred early on in the project which altered its orientation slightly but also increased local interest in the findings. A new government in 1982 determined that decentralization of administration and creation of stronger local governments at the thana (subsequently renamed the upazila) was to be a focal point of its domestic policy; hence, the analysis undertaken by the LRAP Project focused more closely on how these new local bodies might be financed even though much of the data collected pertained to a former organizational structure.

The analysis resulted in 13 interim reports issued throughout the course of the project and culminated in a final report that pulled together the research findings and the recommendations

drawn from the analyses. Given the agrarian nature of the country and the lack of highly organized urban market centers which preclude urban-oriented resource instruments, the analysis and recommendations emphasized property-based local government revenues. Local house taxes, land taxes and property transfer taxes were highlighted in the research. Less traditional revenue sources, including voluntarism and tolls, were also analyzed. Finally, numerous recommendations were made for improvements to the grant system, which traditionally has provided the greatest source of revenues to local governments in the country. This research has subsequently been compiled as a book-length manuscript *Fiscal Decentralization: The Case of Bangladesh* to be published later this year.

Burkina Faso. Unlike the other projects in LRAP's portfolio of long-term efforts, the Burkina Faso project was carried out in a country possessing the highly centralized administrative structure in the francophone tradition. It also differed from the two projects discussed above in that it entailed placement of multi-person teams in the country for extended periods of time during the two phases of the project--1981-1983 and 1983-1985. Each phase was directed from Syracuse by Professor Jerry Miner, with the in-country efforts supervised by Robert Hall. Mr. Hall was assisted in the first phase by Nilgun Gokgur and David Spetka along with a Burkinabe counterpart, Celestin Dabire, currently a Regional Labor Officer. In the second phase, Hall was assisted by three local researchers, Siguian Campaore, Clement Pitriopa, and Alhassane Conde. Mr. Campaore and Mr. Pitriopa have returned to their positions in the Planning and Finance Ministries; Mr. Conde has returned to his native Guinea where he is Permanent Secretary of the Ministry of Local Government.

Given the centralized orientation of the administrative structure, one major feature of the first phase of the Burkina Faso (the Upper Volta) Project was tracing the flow of revenue from individual localities to the center and then back locally in the form of centrally-provided services. To our knowledge, this analysis remains the only attempt to examine regional net fiscal flows in a centrally-administered developing country.

Much of the first phase of the project focused on a region of peasant agriculture containing a single commune. A total of seven person-years of effort were put forth in the field collecting the extensive amounts of data which were incorporated in the final report from the first phase. This report highlighted local level administration and finance of a highly centralized fiscal system. In the absence of tabulated data on revenue and expenditure of local authorities, the field team painstakingly assembled information from original reporting forms. These data revealed that in such a system extremely low local revenue (annually less than \$1.50 per capita) is combined with significant direct provision of resources through central field offices to provide a minimum of local services. Concern with local fiscal administration led to field interviews and observations which indicated that tax assessment and collection is conducted almost entirely by agents of the central government, even for taxes whose proceeds accrue to local authority budgets. The detailed examination of revenue and budget procedures revealed that, while lack of manpower and gasoline severely constrains the ability to reassess and update tax rolls, an even more important obstacle to improved local revenue performance is the lack of incentives for effective tax administration at the local level.

Phase II carried the project to a more agriculturally diversified region in the western part of the country, which also contains the country's second largest commune, Bobo Dioulasso. Interest in the project was heightened by new policies undertaken by the Government in support of some deconcentration of administration and which required a greater local contribution to the maintenance and operation of development projects. Detailed analysis and comparison of the two areas were supplemented by collection and analysis of nearly a decade of fiscal information for all local authorities as well as for the central government. These data permitted comparisons of revenue across local authorities as well as analyses of variations in revenue over time within a jurisdiction. Of special interest was the analysis of the implied equity of the combined central-local tax structure as well as an identification of elements of the tax system which are at variance with the economic concepts of tax neutrality.

Another important aspect of the second phase of the project was field observation of procedures for preparation and execution of local budgets in rural areas and in Bobo Dioulasso. Data collected from these field experiences revealed not only the enormous gaps between proposed and actual budgets, which made the former useless for planning, but also the elaborate and time-consuming arrangements for disbursement of funds which greatly hampered effective use of the limited funds available. One further major undertaking in the second phase was an extensive survey of attitudes toward local revenue and service provision conducted in both a relatively productive agricultural region and in Bobo Dioulasso. Data from this survey were combined with a similar survey conducted during the first phase in a low productivity rural region to produce a portrait of resident attitudes across different circumstances.

The research efforts under the second phase of the project were aided by the three Burkina team members who also spent three months in Syracuse helping to prepare the final report. In total, approximately seven person-years of effort were expended in the field in these data collection efforts under Phase II of the project. Each of the final reports was produced in both English and French.

Peru. The LRAP efforts in Peru consisted of three years (1981-1983) of technical assistance to USAID's Integrated Regional Development Project (PRODERIN) located in two remote departments in the country--Junin and Cajamarca. The work was led by Professor David Robinson, assisted by two Maxwell School faculty members, several graduate assistants and over 30 consultants. In total over 90 person-months of technical assistance was provided to PRODERIN. Generally, the work focused on providing technical assistance in the areas of regional planning and municipal development and administration. As such, the Peru project was unlike the projects already discussed in that it entailed a much larger component of on-site training and advice.

The role of training was particularly pronounced in this project. In all, 29 courses, usually of one-week duration, were presented (16 in Cajamarca and 13 in Junin). These courses

included such topics as "Regional Planning and Development Strategy," "Municipal Administration," "District Level Municipal Finances," "Preparation of Investment Projects for Local Governments," "Urban Cadastral Surveys and Data Processing," "Programming in BASIC" and "Marketing Analysis for Development Planning." In addition, several mini-courses and seminars on topics such as bookkeeping and property tax administration were also a part of the project's output.

In addition to presenting a course on cadastral surveys, the project actually undertook a cadastral survey for the urban district of the departmental capital in Junin. The survey included 700 city blocks containing more than 14,000 individual parcels.

Another aspect of the project which received strong local support was the introduction of microcomputers for municipal planning. More than a dozen technicians were trained to use the computers supplied under the project.

Given the training emphasis within the project, considerable time and effort was devoted to preparation of training materials. Fifty-four technical assistance working papers were prepared in Spanish (with some also available in English) both to be used in conjunction with the training sessions and to be distributed to other students of regional planning and municipal administration and finance in Peru. The project also yielded two doctoral dissertations (Robert Kent and Hernando Garzon) and one master's thesis (Vicky Muniz) as well as several refereed articles. The final report of this technical assistance project was produced in both English and Spanish.

Ecuador. The final long-term, in-country LRAP Project was conducted in Ecuador during 1985 and 1986. This effort was also a bit different from each of the other long-term projects in that it encompassed both local and central government finance and administration. The project team, led by Professor David Greytak, researched three different areas of finance and administration. Greytak and consultant Caroline Fawcett, assisted by research assistant Victor Mendez, studied the administration and effects of the principal intergovernmental transfer

program (FONAPAR) used in Ecuador. One aspect of this work focused on the procedures used at the central government level in allocating and transferring the funds, with particular emphasis on how these procedures affect the flow of funds received by localities. Another unique contribution of the research, which has been undertaken in only three or four LDCs anywhere, was an empirical analysis of the stimulative or substitutive effects which these grants have on local government resource mobilization. Since grants commonly are a major revenue source for Third World localities, this analysis has major implications for local resource mobilization efforts and improvements therein.

Income taxes constituted the second area of research conducted under the project. Here the efforts were led by a consultant to the project, Professor Jorge Martinez of Georgia State University, and Metropolitan Studies Program Research Associate, Hernando Garzon. A data set consisting of tax returns from a very large sample of income taxpayers was drawn in Quito; alternative income tax structures were then simulated to ascertain the revenue and distributive implications of alternative, new income tax rate structures. The effort also involved analysis of tax evasion and avoidance, as well as a review of income tax structures in other Latin American and Caribbean countries.

The final portion of the project was also oriented towards central government finance and focused primarily on the administration of customs duties. This effort, led by consultant Kenneth Stacey, involved the efforts of several long-term advisers to the customs service, and resulted in a set of recommendations to the Government on organizational, administrative and operational improvements, including the redesign of computer and programming capacity for administering and monitoring customs activities.

Short-Term Research

The Local Revenue Administration Project also supplied, often on short notice, teams of analysts to AID missions either to perform narrow research or evaluation tasks in conjunction with other ongoing activities or to provide technical assistance to satisfy individual mission

needs concerning revenue administration. Among the countries assisted by such efforts were the Philippines, Tanzania, Jamaica, Lebanon, Ecuador, Grenada, Egypt, Guatemala, Haiti, Jordan and Nepal. Many of these efforts resulted in reports that were ultimately published within the Occasional Paper or Monograph series of the Metropolitan Studies Program and are cited in Appendix A. Generally speaking, there were two types of short-term efforts undertaken by the LRAP--intermediate-term efforts which involved one or more person-months in country and shorter term, "consultations" with mission and host country personnel concerning quite specific issues. Here we focus primarily upon the former.

Philippines. The first major short-term research effort undertaken by the LRAP occurred in the Philippines in 1980 when the LRAP responded to a request by the USAID mission in Manila to evaluate its Real Property Tax Improvement Project. Professor Roy Bahl, assisted by consultants Daniel Holland and Michael Wasylenko, conducted this evaluation which focused on the results and constraints of a tax mapping project that the mission was assisting in several locations in the country. The research pointed out the positive revenue implications of the effort to map properties and the improvements such mapping would provide to the equity of the tax. However, the report also showed the Government and the mission how the project's success was being hindered because its administrative structure emphasized the role of the Ministry of Local Government despite the fact that local property tax administration was governed by the Ministry of Finance. Based on that report the structure of the project was altered.

Tanzania. Professor Larry Schroeder spent nearly one month in the Arusha Region of Tanzania in 1981 assisting the Arusha Regional Development Project in determining possible alternative ways for local governments in the region to mobilize resources of their own within the decentralized policies then in effect in the country. Since no data regarding local government activities had been previously collected, a significant portion of the time in-country was spent gathering these data from the individual jurisdictions. From analysis of these data together with

a set of interviews of local and regional government officials, several recommendations were made concerning how local government finances might be improved. The resulting report was subsequently distributed both to the USAID mission and the regional authorities.

Jamaica. In 1982 the LRAP was asked to assess the central government revenue structure of Jamaica with the intent to indicate the general sorts of policy changes that might be implemented in the country to encourage private sector-led economic growth. Consultant Daniel Holland of M.I.T. conducted this initial analysis and recommended that a major tax structure analysis be performed with the goal of deriving recommendations for changes in the tax structure, and that extensive training in tax administration be conducted to implement these changes. The USAID mission accepted the LRAP's recommendations and prepared a project paper to that effect. The resulting Jamaica Tax Structure Examination Project (JTSEP) was then carried out under the direction of Professor Roy Bahl, but as a project independent of the LRAP. The 4 1/2 year JTSEP was successful in implementing a major restructuring in the major taxes of Jamaica, including a full revamping of the personal and corporate income taxes by including the introduction of a flat tax rate. Furthermore, major training programs in tax administration were conducted under the auspices of the project. The efforts of the JTSEP have been hailed as a major success by many observers, including then Prime Minister Seaga, and work has been undertaken in several other developing countries throughout the world in an attempt to duplicate the efforts and results of that project.

Lebanon. Another short-term analysis was conducted in 1983 in Lebanon by private consultant Alek Rozental and LRAP research assistant, Richard Joseph; their efforts focused primarily on central government tax administration. Rozental and Joseph surveyed the existing tax structure and its administration, paying particular attention to the income tax, several indirect taxes and four different taxes on land and buildings. Given the politically-uncertain future of the then-new government in Lebanon, the report made to the local USAID Mission and the Government differentiated between policy measures that could be undertaken almost

immediately and others that would require some time to introduce. The authors concluded that for the short run, policies aimed at improving the compliance and assessment of taxation on profits and business income and those taxes which fall on goods and services consumed most heavily by more affluent households offered the most reasonable strategy. Longer term recommendations were also made concerning changes in the law and administrative practices affecting taxes on land and buildings. Suggestions for further technical assistance were also made.

Egypt. Continuing dialogue with the local USAID mission and with the host government was the objective of several LRAP efforts conducted in Egypt. Each was conducted by consultant Professor William Fox of the University of Tennessee, although Professors Bahl and Schroeder also augmented his efforts with brief stopovers in the country and made presentations to the mission concerning local government finance in other Third World settings. During one of his efforts, Fox conducted an analysis of the budgeting system used by the Government of Egypt; in others, he focused his efforts on discussions with AID and the Government concerning decentralization efforts which the Agency has been supporting during the past several years. Emphasized in these short-term efforts were the ways local resource mobilization could be improved under such decentralization policies.

Grenada. During 1984 the LRAP provided tax and budget policy advice to the interim government in Grenada prior to the elections. Project activities included placing an adviser, consultant Jorge Martinez, directly in the Ministry of Finance to confer directly with the Minister on a wide variety of fiscal issues; making and evaluating several different specific tax reform proposals; simulation of the effects of alternative income tax structures; and provision of technical assistance to build and support a computerized fiscal forecasting and budgeting model for the country. Nearly 12 person-months of advisory technical assistance were provided to Grenada under the direction of Professor Roy Bahl. Other participants in the project included

Professor Michael Wasylenko and several internationally-known consultants including John Due, Irving Olson, Kenneth Stacey and George Whitehouse.

Nepal. The USAID mission in Kaumandu called upon the LRAP to conduct an initial study of local panchayat (government) finances in Nepal during 1987. The effort was led by Professor Larry Schroeder, who spent two weeks in the country making arrangements for a set of case studies and data collection efforts undertaken by a local consulting group. While visiting the mission, Schroeder also assisted in preparation of portions of the Country Development Strategy Statement. Research associate James Wozny subsequently spent approximately one month in the country overseeing and augmenting the data collection efforts. Again, even Nepalese central government ministry officials admitted that they had no idea about the financial activities in district and village panchayats; hence, the data collected constitute the first formal recording of the state of rural local government finance in the country. The project report, which was submitted to the mission and the Government, contained analyses of these data and drew several recommendations concerning how local panchayats might be strengthened. These recommendations are currently under review by the Government.

Other Countries. USAID missions in a variety of other countries have also requested, often on very short-term notice, that the LRAP provide specific short-term technical assistance. Commonly this assistance has taken the form of providing specific policy advice to the mission and particular ministries within the host government. Among the countries in which these activities have occurred are: Haiti (1985); Ecuador (1985); Jordan (1986); and Guatemala (in 1985 and twice during 1987).

Core Research

The final type of activity supported under the LRAP cooperative agreement is termed "core research" since, rather than being funded by individual USAID missions, the support was derived directly from the S&T Bureau of AID-Washington. Several different types of activities were supported under this component of the Project. Initially the LRAP underwrote the

production of several state-of-the-art papers which had rather extensive distribution. Annotated bibliographies were also produced and in at least a couple of instances were subsequently reprinted for even wider distribution. For example, then doctoral student Robert B. Kent prepared an annotated bibliography on cadastral mapping in LDCs and another doctoral student, Richard Joseph, prepared a similar annotated listing of material on budgeting in developing countries. Each of these were subsequently made available in the public administration series of Vance Bibliographies. Another early effort of the LRAP which served to build a network of experts which the Project subsequently relied upon heavily was the monograph "Local Public Finance: A Directory of Experts" compiled by Barbara Miller and Richard Joseph and published in 1982.

The core funds also helped to support individual country studies by experts in the Maxwell School. Professor John Nellis used this support to study decentralization efforts in two North African countries--Tunisia and Morocco. His analyses were distributed under the auspices of the LRAP and were subsequently published in refereed journals. Decentralization was also the subject matter of an empirical analysis conducted by Professor Michael Wasylenko and also subsequently published as an article. His quantitative analysis of the relationship between decentralization and economic development utilized fiscal data collected and published by the International Monetary Fund. These articles, together with the other published works that resulted directly or indirectly from the LRAP support are shown in Appendix B.

Intergovernmental grants have also been the subject of several different core-funded analyses. Professor Larry Schroeder conducted a comparative study of intergovernmental transfers in four Asian countries-- Bangladesh, Indonesia, Pakistan and the Philippines. Dr. Barbara Miller and Research Assistant Vijay Rao have analyzed another type of grant scheme, the Food-for-Work Program in Bangladesh, which is locally administered by local government leaders and results in activities not unlike those financed from the formal intergovernmental grant program.

Center for Research on Local Government Finance and Administration

It was also the intent of the Agency for International Development that the contractor administering the Local Revenue Administration Project become known as a center of excellence in local government finance and administration in developing countries. This has been accomplished and is evident in several ways. First, the physical output includes a library containing primarily unpublished materials collected during the course of completing the in-country efforts, as well as through the network of institutions and individuals that has been formed over the life of the Project. Particularly important to this network is the list of addresses of institutions and individuals interested in local government finance and administration throughout the world. At present that list contains nearly 1,000 entries, including 450 outside the United States and representing all the continents.

One key component of the network has been the newsletter, *Revenews*, which has been published on a quarterly basis since 1985. The bulletin includes information concerning activities of the faculty and students associated with the LRAP and also provides summaries of the research completed under the auspices of the Project. In turn, the LRAP receives similar newsletters and communications from other research and training institutions throughout the world which are maintained in the Project library. In this way, the LRAP has gained a prominent position in circulating information concerning revenue administration activities among interested groups and individuals throughout the world.

The Project has also attracted many scholars and visitors from other countries. Several scholars have spent extended periods with the researchers in the Local Revenue Administration Project and the site is a common stop on tours of research institutions made by visitors to the United States.

Given its location in an academic environment with a worldwide reputation in public administration and policy research, the LRAP has also attracted the attention of students interested in pursuing formal and informal training in the subject. Shortly after the formation of

the Project, the Maxwell School instituted a concentration in development administration in its Master of Public Administration Program; students emphasizing this area are expected to complete courses in economic development, development administration and public finance in developing countries. The Economics Department, too, has increased its course offerings at both the MA and Ph.D. levels in the area of economic development and international economics. Enrollments in these programs have increased significantly over the past several years and include students from the United States as well as from the Third World. The bulk of the international students have returned to their home countries where many are in positions of considerable importance; other international students as well as most of the domestic students concentrating in development have taken positions with international agencies or with consulting firms engaged in development efforts throughout the world.

In addition to these important training activities, the LRAP's status as a center of research on local government finance and administration is based upon the scholarly output which it has produced. The list (in Appendices A and B) of books, scholarly papers and reports written by participants in the LRAP reveals that not only has the Project succeeded in carrying out an impressive array of policy research activities but that the fruits of these efforts are being disseminated to both development practitioners and scholars throughout the world. Included there are products other than those directly stemming from LRAP activities, since it was participation in the LRAP that provided many opportunities for the participants to become involved in additional research not directly supported by the Project. For example, each of the core LRAP faculty has been invited to participate in international meetings and seminars because of the efforts they initially began under the auspices of the Project.

In summary, the activities and outputs of the Local Revenue Administration Project have been numerous. It has succeeded in becoming a world-known resource center in local revenue administration as envisioned under the original conceptualization of the Project. Furthermore,

the efforts have substantially advanced our knowledge of local government finance throughout the Third World.

Lessons Learned

The diverse experiences of the Local Revenue Administration Project make it difficult to summarize succinctly the findings obtained during the life of the Project. The Project has been an exercise in applied, policy-oriented research; hence, the most significant lessons are the new theoretical and empirical results that can be used to formulate effective resource mobilization and administration policies in the developing world. While many of the specific findings are not necessarily generalizable, there are several that we feel are transferable to other developing country environments. We summarize them here.

1. Any policy analysis and subsequent dialogue concerning new policies take place within a particular institutional and cultural setting. It is necessary that this environment be understood when analyzing past policies or recommending new policies. This means that a significant portion of the research effort must be devoted to an understanding of the structure of local public administration. This encompasses the degree of autonomy of local authorities, their structure and governance and the linkages formed between these bodies and the central administration and other nongovernmental organizations. An example of such analysis was cited above in the evaluation of the Real Property Tax Improvement Project in the Philippines where the underlying structure had not been fully understood by those designing the Project. Furthermore, describing the institutional structure and analyzing the incentives which it places on the relevant decision makers is a necessary activity which commonly has never been carried out or documented in many developing countries, despite its overriding importance to analysis or policy dialogue.

2. A second lesson that flows from the first is the crucial role played by the center in any attempts to decentralize. While decentralized decision making, by definition, occurs away from

the center, the decentralization process is generally guided or even controlled centrally; hence, when considering fiscal decentralization as a policy goal, policy reforms may necessarily have to be initiated centrally for the goal to be achieved. This seemingly paradoxical lesson becomes more obvious when it is recognized that local governments generally receive their powers from the more centralized institution. Only through appropriate changes at the center, e.g., by altering tax codes to allow local autonomy in choosing the tax base or, at least, in setting tax rates or by altering intergovernmental grant systems to encourage local resource mobilization, can one expect fiscal decentralization to take hold and flourish.

3. Local governments, even in poor countries, can mobilize resources if given the proper incentives. Analysis in Burkina Faso, one of the poorest countries in the world, found considerable voluntary support of local services. Furthermore, local residents stated their willingness to pay additional taxes or fees if they could be sure that the proceeds would be retained locally to improve or maintain the level of public services. A locality in the Philippines was very successful in collecting property taxes when it was allowed to use the imaginative technique of showing a movie locally and, during intermissions, having local political leaders explain to the audience how important property tax compliance is to ensure a flow of services from the local government. When tolls were placed on certain rural roads in a district of Bangladesh, sufficient funds were mobilized to cover a significant portion of the maintenance costs associated with the roads; however, when other attempts were made to impose tolls on other roads that had been allowed to deteriorate, local users were unwilling to pay the fee. User groups in Nepal were capable of getting group members to volunteer services or provide other inputs to ensure that a local project which would provide them benefits would be constructed. The bottom line in these examples is that there does exist a willingness to pay for benefits even in poor countries; the secret is to find the mechanisms that will elicit such payment and then ensure that the services are forthcoming.

4. While greater mobilization of resources may occur at the local level, analysis and policy reform cannot ignore the role played by intergovernmental transfers in nearly all developing countries. The LRAP has emphasized the importance of the incentives which such transfers can build into the local revenue system and has, particularly through the empirical work carried out in the Philippines and in Ecuador, advanced the state of knowledge concerning the impact of intergovernmental grants on resource mobilization and spending activities of local governments. In a slightly different vein, the work in Burkina Faso documented for the first time the spatial or sectoral flows of funds that occur within a centralized bureaucracy. While centralized administrations do not contain mechanisms for conventional intergovernmental grants, similar effects can be achieved by assigning proceeds of specified taxes to the budgets of the local authorities within which they are collected. Such assignments can be made contingent upon the locality fulfilling certain budgetary requirements; in this way, tax proceeds take on the characteristics of a grant system. When combined with lesson (2) above, the implication here is that the decentralization process can be furthered through appropriate uses of the grant system.

5. With administration a part of its title, it is not surprising to find that much of the effort under the LRAP has focused on how local governments assess and collect revenues, and budget and spend the proceeds. Whereas many of the statutory revenue systems are not terribly ill-designed from standpoints of economic neutrality or equity, they are often so complex in nature that they cannot be administered fairly and, as a result, do not achieve the revenue goals or even the economic effects they were designed to obtain. In recognition of this constraint, the LRAP recommendations commonly included a two-pronged approach to improved resource mobilization and utilization. First, the revenue instruments themselves needed some redesign to make them simpler and more easily administered; and second, improvements to administrative procedures and increased training were needed. This was the case in recommendations made in several of the longer term projects, as well as the short-term consultancies which eventually resulted in long-term projects (Jamaica, Grenada, Jordan and, possibly in the future, in

Guatemala). Given the severe constraints to revenue administration in most developing countries, simplicity of administration must be seen as an overriding policy goal in nearly all revenue reform settings.

6. While simplicity is desired, the experience in Peru also suggests that revenue administration can take advantage of computer technology. In a similar vein, the implementation of the recommendation in Bangladesh that improved technical assistance be provided to local governments through the creation of a central evaluation unit was made possible by subsequent computerization of the process. The conclusion from this aspect of the LRAP work is that local governments, at least in some settings, can benefit substantially from computers and that possibly the next real breakthrough in local government revenue administration will come from computerization. It is necessary, however, that such computerization not be purely hardware-oriented. As was shown in the Grenada and Jamaica efforts, with additional software support and with some technical assistance, computerized financial management can become a reality without a huge capital investment.

7. The LRAP experience has underscored the importance of data for the conduct of such policy analyses and has highlighted the need to improve data collection and data analysis capabilities in developing countries throughout the world. For analysis to have a significant effect on policy makers, there is the need to base that analysis upon credible data; unfortunately, it is commonly the case in developing countries that little or no data concerning the operation and finance of local authorities exist. The LRAP experiences in collecting and analyzing such data can serve as examples to subsequent efforts to conduct policy and management analyses in these countries. For such efforts to be successful, however, additional effort and resources will have to be devoted to improvements in data recording and in increased usage of data for administrative management and policy evaluation purposes.

Finally, the numerous experiences of the Local Revenue Administration Project have shown how crucial it is for those conducting the analysis to develop a substantial rapport with

their colleagues in the host country. Fiscal affairs are among the most sensitive of policy issues that must be faced in any political environment; an obvious appreciation of this sensitivity is absolutely necessary if the analysis is to prove useful to the end-users--the host country. All too often the AID work is conducted by consultants working directly out of the AID mission. Since most of these countries have systems that operate with a great deal of "back door" policy and informal agreements, it is essential to work within the system to understand it. This was most certainly the case in the major tax reform efforts initiated under the LRAP in both Jamaica and Grenada where the nature of the issues under study were extremely sensitive.

Other readers of the numerous reports and papers of the LRAP Project may draw additional lessons from the experience, but the lessons enumerated should be remembered as efforts are undertaken to improve local resource mobilization and administration in developing countries.

APPENDIX A: REPORTS, PAPERS AND MONOGRAPHS¹

Reports from Long-Term Projects

Philippines

Roy Bahl, David Greytak, Kenneth Hubbell, Larry Schroeder and Benjamin Diokno, *Strengthening the Fiscal Performance of Philippine Local Governments: Analysis and Recommendations*, Metropolitan Studies Program Monograph No. 6, Local Revenue Administration Project, The Maxwell School (Syracuse, NY: Syracuse University, 1981).

Bangladesh

Larry Schroeder and Maniruzzaman, "Local Government Structure in Bangladesh," Metropolitan Studies Program Occasional Paper No. 62, Local Revenue Administration Project, The Maxwell School (Syracuse, NY: Syracuse University, November 1982).

Larry Schroeder, "Toll Roads as a Zilla Parishad Revenue Source: A Case Study," Metropolitan Studies Program Occasional Paper No. 63, Local Revenue Administration Project, The Maxwell School (Syracuse, NY: Syracuse University, November 1982).

James Alm, "The Immovable Property Transfer Tax in Bangladesh," Metropolitan Studies Program Occasional Paper No. 68, Local Revenue Administration Project, The Maxwell School (Syracuse, NY: Syracuse University, April 1983 [revised May 1984]).

Barbara Diane Miller and James A. Wozny, "The Bangladesh Land Occupancy Survey of 1978 and Its Relevance for the Land Development Tax," Metropolitan Studies Program Occasional Paper No. 69, Local Revenue Administration Project, The Maxwell School (Syracuse, NY: Syracuse University, 1983).

Larry Schroeder (with Hasan Murshed and Muin Uddin), "Collecting Local Government Financial Data in Developing Countries: The Bangladesh Experience," Metropolitan Studies Program Occasional Paper No. 82, Local Revenue Administration Project, The Maxwell School (Syracuse, NY: Syracuse University, May 1984).

Barbara Diane Miller and Showkat Hayat Khan, "Local Voluntarism and Local Public Finance in Rural Bangladesh," Metropolitan Studies Program Occasional Paper No. 83, Local Revenue Administration Project, The Maxwell School (Syracuse, NY: Syracuse University, 1983).

James Alm and Larry Schroeder, "The Land Development Tax in Bangladesh," Metropolitan Studies Program Occasional Paper No. 84, Local Revenue Administration Project, The Maxwell School (Syracuse, NY: Syracuse University, June 1983).

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- Barbara Diane Miller, "Possibilities of Benefit Charges for Public Works in Bangladesh," Metropolitan Studies Program Occasional Paper No. 88, Local Revenue Administration Project, The Maxwell School (Syracuse, NY: Syracuse University, January 1984).
- Showkat Hayat Khan, "Aspects of Public Finance in a Union Parishad: A Sociopolitical Case Study," Metropolitan Studies Program Occasional Paper No. 89, Local Revenue Administration Project, The Maxwell School (Syracuse, NY: Syracuse University, January 1984).
- Larry Schroeder, James Alm, Roy Bahl and Barbara Miller, *A Plan for Increased Resource Mobilization by Local Governments in Bangladesh. Volume I: Executive Summary, and Volume II: Final Report*, Metropolitan Studies Program Monograph No. 14, Local Revenue Administration Project, The Maxwell School (Syracuse, NY: Syracuse University, May 1984).

Burkina Faso

- Jerry Miner and Bob Hall, *Local Revenue and Service Provision in Upper Volta*, Metropolitan Studies Program Monograph No. 13, Local Revenue Administration Project, The Maxwell School (Syracuse, NY: Syracuse University, 1983).
- Jerry Miner and Bob Hall, *Phase II, Final Report*, Metropolitan Studies Program Monograph No. 17, Local Revenue Administration Project, The Maxwell School (Syracuse, NY: Syracuse University, 1985).

Peru²

- Hernando Garzon, "Some Aspects of the Reform of the Peruvian Municipal Law," Peru Project Working Paper No. 1, The Maxwell School (Syracuse, NY: Syracuse University, July 1981).
- Fernando Arellano and David Robinson, "Terms of Reference for the Analysis of Community Interest Public Works," Peru Project Working Paper No. 2, The Maxwell School (Syracuse, NY: Syracuse University, July 1981).

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- Robert B. Kent and Aldo Sandoval, "The Geography of Municipal Finances in Junin Department," Peru Project Working Paper No. 14, The Maxwell School (Syracuse, NY: Syracuse University, July 1982).
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- Alvaro Ortiz, "A Methodology for Economic Regionalization and an Analysis of Regional Inequalities in Peru," Peru Project Working Paper No. 20, The Maxwell School (Syracuse, NY: Syracuse University, December 1982).
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