

## LOCAL RESOURCE MOBILIZATION IN DEVELOPING COUNTRIES

As the problem of financing the day-to-day operation and maintenance of local services has become more apparent, there has been increased interest in the role local governments can play in mobilizing the resources necessary to cover these recurrent costs. Over the past few years the Syracuse University Local Revenue Administration Project and other groups have devoted considerable effort in learning more about such resource mobilization. While much has been learned, there are still areas of uncertainty due, in great part, to the vast differences in institutions, culture and economic base encountered in different developing countries.

At the heart of the current knowledge of local resource mobilization is the role played by incentives—-incentives to local government leaders, incentives to bureaucrats and incentives to local citizens. The system must provide the proper incentives in order for resource mobilization efforts to succeed. Research in countries as poor as Burkina Faso has shown that local citizens are willing to contribute their own funds for such local public services as education and health from which they feel they will realize valued benefits.

For an incentive system to be successful, there is also the need for some local autonomy. If the organizational structure is fully centralized, with lower levels given no freedom to act without approval from above, willingness to mobilize resources will be stifled.

A second issue for which some tentative conclusions are now being drawn but for which further effort is necessary is what form of resource mobilization instruments are most effective. In addition to the usual taxes, fees and charges, the use of credit via national loan funds or using non-traditional forms of resource mobilization such as voluntary participation including contributions of labor are feasible alternatives. One problem in such analysis is the difficulty of separating the particular circumstances of the specific governmental system and level of development from the role played by the revenue instruments themselves. Only a greater number of case studies in a variety of cultural and institutional settings can allow one to attempt to sort out these effects.

Finally, only initial efforts have been made at understanding the fiscal implications of tying fiscal instruments to particular services, e.g., the employment of user charges or even using general tax sources for specific governmental services. One issue that cannot be ignored is the possibility that, by focusing on a single local service, e.g., water or education, payments for these services will simultaneously lower compliance with other revenue instruments which support services such as road maintenance or drainage. "Fixing" one aspect of the system may simply do harm to another are so that unanticipated distributional effects result.

Finally, work in different developing countries suggests that it is absolutely necessary to consider the overall system of local governments and government administration when focusing on local resource mobilization efforts. That is, for example, it will do little good to study the assessment and collection of property taxes without simultaneously recognizing the role which the central government play<sup>3</sup> in the process and also how central government grants or direct provision of services may discourage local officials from imposing their own levies. In other words, a full system view which encompasses the role which central government and overlapping regional governments play in local financial administration is necessary. Closely linked to this is the necessity of working closely with central government officials when studying and contemplating changes in this system. Without such cooperation the accumulation of necessary data on finances and administrative arrangements is impossible and any resulting analysis and recommendations are unlikely to have any impact.

While progress has been made, important issues remain. One is the full impact of the system which transfers central government funds to local areas. For example, how can grant systems be designed to encourage more effective local revenue generation and more efficient utilization of these revenues. Along these lines is the matter of how to ensure that there is the technical and administrative capacity at local level to ensure that resources, once received either from central or local sources, are effectively transformed into service outputs of the character valued by local citizens.

Hypotheses being tested:

1. Local authorities even in the poorer countries, have significant potential for generating additional revenues.
2. Local government personnel can be trained to administer simple but adequate revenue generation instruments.
3. It is as easy to achieve fiscal decentralization under a unitary system of government as under a federal system.
4. Local revenue mobilization will be enhanced if local governments and local citizens are given good reasons (i.e. incentives) to tax themselves.
5. If the major administrative bottlenecks to the levying and collection of taxes are removed, the fiscal capacity of local governments will increase substantially.
6. Tax potential and the demand for public services increase dramatically with economic development and, consequently, fiscal decentralization is a function of economic growth.

The research tests the hypothesis that in both unitary and federal systems of government, use of incentives such as intergovernmental grants, local decisions on use of local revenue and simplicity of administration, will enhance mobilization and effective use of local revenue.

Local Taxation: There are particularly good opportunities for increasing the revenue flow from various types of local property and consumption-based taxes.. Many local governments are beginning to find ways around the administrative and collection bottlenecks that have long plagued local government revenue performance in LDCs. A varied; transferable experience is growing.

User Charges: As local government responsibility for delivering services grows, so does its ability to levy benefit charges. Because local residents can see direct benefits from a service, they are more willing to pay the charge and administrative problems are minimized. The major research problems have to do with identifying candidate services for the use of benefit charges, structuring such charges to enable adequate cost recovery, and creating an adequate administrative system.

Intergovernmental Grants: With the exception of the largest urban governments, locally raised revenues are rarely adequate to cover expenditure needs. The design of intergovernmental grants from central and state governments, which make up this shortfall, raises important questions. Among the most important is how to design grant systems so as to provide adequate financing for local governments without discouraging their efforts to mobilize resources and while holding them accountable for their expenditure decisions. Our research is uncovering a great variety in approach to this issue and a mixed record of success with various types of grant programs.

Transition to Decentralization; In many countries characterized by centralized administrative traditions there is growing dissatisfaction with arrangements for provision of local services. At the same time there is little or no administrative and technical capacity to budget and organize service delivery by relatively autonomous state (departmental) and local (communal) units. One of our research interests is to examine how this capacity can be developed.

Budgetary Problems; Local governments in LDCs are almost always lax in their fiscal planning practices. Budgets are often net structured so as to enable the use of the budget document as a planning tool or even as a control device. In

addition, central governments often earmark substantial shares of local budgets, thereby limiting the discretionary ability of local governments. The reform of budgeting practices is an essential step in formulating an effective fiscal decentralization program. Again, much can be learned from the successful experiences around the world.

Debt Finances; There is a growing appreciation of the possibility that local governments may finance capital improvements through borrowing. This has led central governments in developing countries to set up a variety of institutional mechanisms for channeling capital funds to the local sector, i.e., local government loan authorities, development banks, capital subsidy programs, etc. It is not clear that there is a "right way" but countries are interested in learning as much as they can about how these various options can work..

Local Government Public Enterprises: Many local governments in developing countries have used the public enterprise form to either set off a part of their operations as independent or to institute a local government, profit-making business. There has been a mixed success with this kind of experiment in developing countries, but the experience has pointed to a common set of problems. These have to do with pricing the service, in-house management vs. contracting out, and adequately measuring and covering capital costs. Markets, slaughterhouses, and public utilities have been particularly important uses of the public enterprise form.

Our Philippines projects coincided with these areas of concern. The short-term evaluation had to do with property tax administration and the longer term analysis with the more general issue of fiscal decentralization. In the latter project, local tax reform, budgetary issues, intergovernmental relations, credit financing and public enterprises were all directly addressed. A similar set of issues is central to our current Bangladesh effort. The LRAP Peru involvement is directed at local government revenue generation in within the context of