

DECENTRALIZED FINANCE AND MANAGEMENT FOR DEVELOPMENT

REVISED DRAFT

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DECENTRALIZED FINANCE AND MANAGEMENT FOR DEVELOPMENT

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0. Introduction

This concept paper reflects AID'S growing concern with the negative consequences of over-centralization in many Third World political, administrative and revenue systems. It also expresses AID'S interest in involving less developed country (LDC) project beneficiaries in the planning, execution, financing, maintenance and control of activities launched with USAID support. It reflects U.S. policy in promoting private sector activities where appropriate. It builds on a foundation of positive program results achieved in some of AID'S more successful prior efforts in decentralization.

Several Asian countries and USAIDs have implemented provincial and/or municipal development projects over the last several decades. These sustained decentralization efforts, when accompanied by relative political stability, have measurably increased local capability for project and infrastructure planning and management. Korea, Philippines and Indonesia illustrate generally successful efforts, countries as diverse as Bangladesh, Burkina Faso, Nepal and Peru are currently paying great attention to decentralization policies and possibilities. Nigeria, following the upheavals of the civil war, achieved a major structural reform of its governmental system.

However, most USAID recipient countries currently employ strategies based on central state administration of economies and development activities. It is now clear that these states have overreached their capacity to mobilize and manage resources effectively. The time is ripe to examine alternatives.

After this introduction, Section 1 notes two "development dilemmas" - precipitous deterioration of capital infrastructure and low-quality government services. Section 2 reviews six hypotheses which present these dilemmas as consequences of overly-centralized government institutions and procedures. Section 3 comments briefly on decentralization initiatives and suggests many have failed. Section 4 and Section 5 contrast two analyses of decentralization, first as an organization-centered process and then from the perspective of clientele. Section 6 defines deconcentration, delegation reviews pro-decentralization arguments, and Section 8 places decentralization arguments in context in Third World settings. Section 9 describes sectoral areas amenable to action and applied research. Section 10 outlines the kinds of services the decentralized finance and management for development project will supply to AID field missions. Section 11 describes the kinds of analytic frameworks which will be used by project personnel in dealing with decentralized finance and management problems. Section 12 outlines the applied research which will be carried out under the project, and the hypotheses which will guide that research. Conclusions are presented in Section 13.

1. Development Dilemmas

Third World residents, government officials, donor agency personnel and experts have repeatedly noted serious failures in central government attempts to manage economic development possibilities and quality of life at the local level in LDC's. Infrastructure deterioration illustrates the point. Time and again, throughout the developing world, host country and foreign assistance

funds have been allocated to develop physical infrastructure. Experience shows that large numbers of these facilities are not maintained. Roads, bridges, irrigation projects, water supply systems, public buildings, public market facilities and similar installations deteriorate or break down. Wear and tear must of course be expected under any pattern of use. What is distressing is the frequency with which wear and tear escalates into serious erosion of service quality, chronic breakdown, or even complete abandonment.

Similar problems have also been identified in labor-intensive projects. Judged from the perspective of both experts and users, human health operations, state-organized veterinary medicine activities, child and adult education, quasi-cooperatives and similar service organizations have often failed to provide adequate levels of service to users. Consequences have been severe for those who bear the costs of failure——ill health, and human potential unrealized for lack of adequate training. Similar issues arise in the area of environmental management. Many would argue that mismanagement of natural resources and consequent degradation of the environment are two of the most serious problems now facing most developing countries. These issues are particularly pressing throughout Africa, and in much of Latin America and the Caribbean.

2. Explaining Dilemmas: Overly-Centralized Institutions?

Many LDC governments have performed inadequately in trying to promote economic development. Most of these governments have relied on highly centralized agencies to dominate the internal politics and control the

economies of their countries as far as possible. Critics have linked over-centralization to inadequate performance through a number of hypotheses. These may be summed up as follows:

1. Centralized institutions reduce opportunities for initiative at the local level by establishing inflexible performance requirements and procedures which fail to take account of local-level realities.

2. Centralized institutions drive up the political cost of starting local collective activities and so discourage service users from seeking out ways to improve services. Centralized regimes withdraw or withhold decision authority from the local level and reduce the number of points where decisions can be made. Simple decisions which concern only a limited local area must then be made at a higher level with a consequent increase in transactions costs. Those who want the decision must, in effect, join the queue, unless they have the political clout "to elbow their way to the front of the line." If they lack clout and other groups are more influential, the wait may be a prolonged one.

3. Centralized institutions pervert information flows. Subordinates avoid communicating bad news to those who influence their career chances. Decision makers in the higher reaches of the bureaucracy thus tend to make policy on the basis of distorted information (a virulent form of imperfect information).

4. Centralized institutions reduce civil servants' interest in developing services which users value. Civil servants tend, in such systems, to look up the hierarchy, rather than out to service users. Because bureaucrats depend on their superiors, not users, for 30b security and promotion, users have difficulty influencing them and modifying central policies to meet user concerns as these develop in the local context.

5. Paradoxically, because their management systems are often weak, centralized institutions also experience serious personnel control problems. The phenomenon of goal displacement symptomizes this situation. When they can get away with it, subordinates pursue their own interests in implementing policies, rather than the goals formally specified by superiors. Among other areas, such manipulation occurs in revenue administration systems. These then become both inefficient and inequitable in raising revenues.

6. Officials in centralized institutions often distort resource allocations to favor central units, under their direct control, at the expense of local jurisdictions and lower echelons in their own agencies. This behavior is characteristic of many centrally-administered projects in LDCs.

3. Decentralization

For at least two decades, critics have proposed decentralization as a solution to these problems. Various approaches to decentralized development have been suggested. Most promise better performance through greater citizen involvement in choice of government personnel and influence on policies, as well as in conception and execution of development projects. Thus far,

progress on decentralization programs designed to increase citizen participation has been uncertain and limited. Achievements have been modest, with the exception of some long-term efforts in Asia (Nepal, Indonesia and Thailand among others). But even in the Asian countries, progress towards effective decentralization has fluctuated as a function of dominant government policy concerns.

Two problems are apparent with most decentralization efforts:

- 1) Many have not created the kinds of political incentives necessary to promote citizen involvement in defining and carrying out government activities at local levels, and
- 2) Many decentralization programs fail because they do not provide adequate training for officials in newly autonomous local regimes. Likewise, these programs also fail to design incentives for officials in overriding regimes who support decentralization efforts.
- 3) They usually do not provide adequate means to finance government or collective activities at those levels.

4. Decentralization as an Organization-Centered Process

This paper suggests such short-comings flow from theories of decentralization which are organization-centered. The unit of analysis in that theory is the public administration, or its offshoots (ministries, parastatals, marketing boards, etc.). The problem is making the bureaucracy "work better." The unit of analysis adopted focuses evaluation and prescription on the bureaucracy, its related structures, and their internal organization. It does not direct attention to the goods and services produced by those structures, and especially, their value to citizen consumers.

Remedies proposed for bottlenecks at the center, lack of initiative in government bureaucracies, and other commonly identified ills of overly-centralized systems are (1) shifting work load from central to regional or field agencies - deconcentration - and sometimes (2) shifting policy authority from the center to more local levels - delegation - but only within the broad limits of the existing administrative system. (3) Devolution - a third form of decentralization involving transfer of real decision-making power to local jurisdictions (see following section) - is generally not at issue here. In some cases, however, authority transfers are intended to encourage "guided" popular participation in local arenas, although most often only under administrative and political controls so tight as to make

autonomous decision-making at the local level virtually impossible. Changes of this sort generally do not materially improve incentives for effective participation in the provision/production of public goods and management of common or collective resources. For local users, costs frequently continue to outweigh benefits, if continuing low levels of citizen participation are any indication.

5. Decentralization as a Clientele-Centered Process

Another conceptual framework, institutional analysis and design, approaches the centralization/decentralization debate from a quite different perspective. It takes service provision and recurrent cost issues in LDC's as the starting point of the analysis. The unit of analysis adopted by this framework is the individual. The problem then becomes one of determining how a given service provision or revenue mobilization issue might best be handled in institutional terms. Initially, the preferred sets of institutional arrangements are problematic. The effort is directed towards assessing how alternative sets of institutional arrangements will tend to channel individual behavior, and the implications for resolution of the target problem. In practice, the analysis moves through four steps:

- (1) Determination of the nature of the goods and/or services to be provided, e.g., road maintenance, adult education, veterinary medicine, local water supply, etc., particularly, whether they are private, public or common pool goods or services.

- (2) If the particular issue is appropriate for government, at what level(s) or government is it best handled?
- (3) If a decentralized solution is appropriate, how should relations concerning the problem be organized among government jurisdictions at the local and supra-local levels?
- (4) How might relations be structured between citizens and governments at each level in order to promote the most productive/efficient form or provision?

This approach stresses reliance, whenever possible, on existing management and revenue potential within local-level communities to provide collective goods. Where investigation reveals such potential does not exist at present, institutional analysis and design can provide guidance on creating it.

This theoretical framework points up two key areas where solutions to administrative inefficiency and poor performance in centralized administrative systems may be sought:

1. Modifying intergovernmental relations, generally by devolving central or regional government powers to the smallest existing, or new, local jurisdiction capable of dealing with the target problem.
2. Ensuring existence of the revenue base necessary to support governmental activities in those jurisdictions.

6. Definitions¹

Decentralization will be defined here, following Ronainelli, as:

...the transfer or delegation of legal and political authority to plan, make decisions and manage public functions from the central government and its agencies to field organizations of those agencies, subordinate units of government, semi-autonomous public corporations, area-wide or regional development authorities; functional authorities, autonomous local governments, or nongovernmental organizations.

Three variants of decentralization can be usefully distinguished:

deconcentration: shift of workload from central ministries to local units; more significant deconcentration changes involve turning over some central decision making authority to field officials. ²

delegation: hand over of functional powers to units, e.g., parastatals, outside the control of direct line agencies, though usually to some extent supervised by them. Typically such units enjoy authority over some functional areas.

1 Dennis A. Rondinelli, "Government Decentralization in Comparative Perspective: Theory and Practice in Developing Countries," *International Review of Administrative Sciences*, XLVII, 2 (1981), 137-39.

2 Other concepts useful in defining the nature and degree of deconcentration include: field administration, by central government civil servants working in regional or local areas, v. local administration, in which all local officials are central government appointees and serve at central government pleasure; integrated local administrations force ministry employees to work under the local administrator's supervision; unintegrated local administrations permit centralized ministry technical employees to work without supervision from the local administrator.

devolution: transfer of power to local units of government which operate in a quasi-autonomous manner, outside the direct administrative control structures of the central government.

7. Pro-Decentralization Arguments: A Review

Numerous arguments have been advanced favoring decentralization as a government policy. Many simply present the converse of the centralization critiques. But several nuances justify a quick review of these propositions. Decentralization proponents, whether they favor deconcentration, delegation or devolution, usually support some variant of the following propositions:

a. information-based efficiency argument:

officials who are nearer to service users at the local level and familiar with their needs and concerns can do a better job of expending government funds efficiently (in accord with users' preferences) than can civil servants working at the national capital in central government ministries. A variant of this argument, which fits most firmly with the devolution option of decentralization programs, suggests officials in local governments are likely to be more responsive to local interests because they are more dependent on them: in theory, they require support of fellow

citizens in order to govern effectively. This proposition is probably questionable where local governing elites have succeeded in setting up a system which allows them to "control the game" at that level. The proposition seems intuitively valid, however, in those situations where local government officials are effectively liable to review and control by service users.

- b. political costs-based efficiency argument: local initiative can be encouraged by lowering the political costs of entrepreneurship, that is, the money, time and effort necessary to get authorization to undertake an activity. Decisions on farm to market and feeder road right-of-ways or the creation of watershed management associations will involve relatively low political costs if they can be taken by local officials. Political entrepreneurship to launch such activities should thus not involve high time, energy and money costs. If the same issues can only be decided by regional officials, ministers or the national cabinet, the costs of political entrepreneurship will likely be high enough to discourage local users and leaders from undertaking such activities.

- c. co-production efficiency argument: very few labor-intensive collective activities can be undertaken by governments without sustained citizen efforts to "co-produce" the goods in question. This holds for education, human and animal health, environmental management, producer and consumer cooperative endeavors, and even road maintenance. If decentralization programs increase the chances that citizens will go beyond merely voting and lobbying for local projects to "co-produce" (help create) the goods and services they desire, they improve the likelihood for sustained economic development.
- d. revenue-earmarking efficiency arguments: if local revenues are earmarked for local expenditure on tangible goods and services local users want, public sentiment may support or demand compliance with at least those aspects of tax laws which generate funds for local activities. If so, existing tax systems may produce more funds for local use without additional expenditures on revenue administration. If so, and if officials in fact expend earmarked funds as agreed, service provision and citizen satisfaction should rise, reinforcing sentiment in favor of compliance. Successful earmarking might even generate public support for higher taxes to finance locally-desired programs.

Overtly political arguments apply in some situations where national leadership perceives benefits from decentralization which may go beyond efficiency questions to issues of survival. These include:

- e. national unity arguments: while many national unity proponents press for greater central penetration of ana control over fractious or dissident ethnic groups or "peripheral" areas to consolidate the nation state, others assert true unity will come sooner ana be more durable if local areas have greater autonomy to work out their own policies and development options. Some decentralization efforts which seek this objective advocate substantial devolution of central government powers to local units. The effect would be to multiply centers of decision making, and thus to reduce the strategic importance of winning power at the center, by making it no longer "the only game in town."

- f. participation arguments: some argue that participation in the management of public affairs at the local level is a necessary condition for democratic government. Only if citizens involve themselves in government directly, as opposed to indirectly through representatives, can democracy be realized.

8. Decentralization Arguments in context

All of these arguments have some value. Each must, however, be evaluated in the time and place context of a specific decentralization program. The kinds of broad political objectives spelled out under Points e. ana f. will be anathema to some regimes given present conditions. Associated

security risks may be considered quite unacceptable. Other regimes might consider points a. - e. irrelevant at present, unless efforts to achieve them directly reinforce national unity and participation. Sri Lanka, where Tamil separatist pressures continue unabated, may fall into this category.

Some regimes plagued by ethnic conflict have indicated willingness to devolve substantial authority to component jurisdictions, e.g., Zambia and Papua New Guinea. Other governments may be totally uninterested in decentralization as a concept. However, central government officials' concerns about financing recurrent costs of services, for instance road maintenance in Pakistan or Bangladesh, may lead them to authorize limited delegation or devolution if it promises to improve performance. A desire to see, at local levels, more effective efforts to combat environmental degradation, as in many Francophone Sahelian States, may produce the same policy result.

The objectives and enthusiasm of key actors for decentralization in finance and management issues will vary as a function of the policy context. In some situations, it will be appropriate to seek maximum devolution. In others, studied incrementalism, with an eye to progress over the long haul

through a sequence of small changes, will be the only politically feasible strategy, whatever the apparent economic advantages of more rapid structural reforms. Above all, regular reassessments of strategy will condition success of any project. Exogenous shocks, such as a 60% collapse in the pump-head price of oil from November 1985 to March 1986, may well change perspectives of key actors on the advisability of revenue or management decentralization.

Willingness to tailor advice on decentralization, in light of the given context, clearly conditions its relevance. A USAID project on decentralized finance and management must demonstrate this flexibility to both field missions and governments if it is to secure support. In all cases decentralized activities must be designed to maximize chances for success. This will involve in part ensuring adequate support and supervision for reform efforts over time. More importantly, however, decentralized finance and management activities must be tailored to the capacity of potential service users. Unless participants believe they can master required jobs within their own time, information and resource budgets, such activities will never become operational.

9. Sectoral Areas Amenable to Action and Applied Research

The set of sectoral focii currently under consideration is listed below. This list will be revised in light of subsequent comment. Items will be dropped if they do not fit with existing or planned projects. Others will be added as a function of mission and government interest. Activities finally selected for project attention will be chosen in part to reflect multi-mission interest, in order to create opportunities for comparative applied research.

Current sectoral areas of interest include:

- a. secondary and feeder road maintenance; path and farm-to-market road construction, as well as maintenance
- B. education (primary, adult literacy; perhaps secondary education as well)
- c. human health services provision
- d. resource management, e.g., Woodstock, pastures, watershed and fisheries management, soil and water conservation operations
- e. small and medium-sized irrigation systems operation and maintenance
- f. veterinary health services provision
- g. water supply operations at the village and inter-village level
- h. tax reform to improve local government financing. One possible central theme for the DFMD project arising from the above sectoral focii is local capacity (both financial and managerial) to operate and maintain development infrastructure. The need for such capacity is particularly acute with respect to rural roads and irrigation systems.

10. Decentralized Finance, and Management for Development: Project Services

The Decentralized Finance and Management Project will offer various services to field missions. They are:

1. helping missions conceptualize DFMD problems and work out approaches to them
2. helping missions design and develop DFMD projects
3. monitoring and evaluation of on-going DFMD projects, to provide a flow of information upon which to base periodic project reorientation decisions
4. provision of TDY technical assistance on DFMD issues to on-going missions projects and in support of policy dialogue
5. recruitment and placement of long-term DFMD technical assistance for mission projects
6. comparative cross-national applied research on DFMD issues common to several USAID projects

7. training for mission and host country personnel involved with DFMD problems
8. systematic dissemination, through seminars, workshops and publications, of lessons learned from field experience and applied research

Some of these services, sometimes all of them, will be relevant in a particular country interested in exploring decentralized finance and management questions. Backstopping on problem conceptualization may be useful in situations where mission personnel identify DFMD opportunities, or sense obstacles to progress in an area, but lack time and background to define issues more concretely. Short-term help with project design, development, monitoring and evaluation is necessary when policy decisions must be translated into interventions and then progressively adjusted and modified to achieve policy and project objectives. The services of TDY specialists thoroughly familiar with DFMD problems and potential solutions can provide urgently needed support in policy dialogue settings. Applied research to gather data, analyze it and present it in forms useful for policy discussions with government officials is indispensable when the problem is quite clear, but its dimensions are not. If policy makers are not fully aware of the options available to them in structuring solutions to problems, applied research may be extremely helpful. Finally, training may be necessary for some or all groups involved in DFMD initiatives in a given country, particularly because the issues are novel and complex. The need for trained personnel will undoubtedly increase as devolution policies take hold and local units begin to play a larger role in the management of their own affairs.

Decentralized finance and management problems will arise at different stages or levels across AID'S three geographic regions. In some, missions and governments will already have moved to agreement at the policy level about appropriate next steps in project terms. In others, it will be necessary to either conceptualize problems more fully, or to get government support for the next steps. Clearly the two major components may be at different stages in different sectoral areas within a single country. In some, the principle of separating local provision of road maintenance from local production of road maintenance, may be already accepted. In those same countries, the idea that natural resources management activities might be appropriate areas for local government activities may be quite novel. Situations will differ from mission to mission.

11. Analytic Frameworks

Several analytic frameworks can be used to structure diagnosis of problems. These frameworks can also guide design of decentralized solutions to these problems. Some of the frameworks outlined below have been subjected to extensive empirical testing and are solidly grounded, though they will undoubtedly be refined through further theoretical and field applications. Others are more experimental in nature, but promising enough to warrant attention. Those of greatest interest are briefly described in the paragraphs below. In each case, illustrations of the S&T DFMD project role are noted.

a. Common Property Resources

Many of the sectoral areas listed above concern common property resources, that is, resources such as a road, a pasture or a watershed which a group of individuals hold in common but use individually. The framework outlined below provides a tool to analyze these resource management problems and to design appropriate management institutions where necessary. When user demand exceeds available use units (transportation, forage, soil conservation) these resources must be managed or they will be destroyed.

Many efforts over the past several decades have assumed that common property resources must be managed from the top down by an agency outside the user group. But recent research in a large number of LDC's suggests local resource user groups often develop ingenious and effective management institutions to ensure sustained-yield productivity. Such management associations can be strengthened by appropriate legislation or hastened into oblivion by ill-adapted rule systems.

A DFMD consulting team would analyze resource management problems from a user perspective. Team members would gather data on technical characteristics of the resource and the means available for managing it, the supply-demand relationships, the formal and informal institutions which do or could manage the resource. Once this range of data has been collected, it will be possible to think through institutional

arrangements - including at supra-local levels - which will enable users to reinforce existing management practices or experiment with new ones and, by incremental adjustments, devise a workable management scheme.

b. Institutional Analysis and Design

Institutional analysis and design, as a theoretical framework, provides a rationale for devolution to local jurisdictions, under specific circumstances, of responsibility for providing services or goods. It stresses, among other things, the following elements:

1. the importance of congruence between the size (geographic boundaries) of the problem to be dealt with (road stretch, watershed, adult literacy program, irrigation canal section) and the size of the jurisdiction which is to deal with it;
2. the advantages and disadvantages of general purpose jurisdictions v. special districts as institutions to manage service provision and infrastructure operation and maintenance;

3. the importance, in terms of controlling abuses of political power and providing for resolution of disputes between different jurisdictions, of coupling the devolution of political power to autonomous local jurisdictions with extension of the independent judicial capability. Devolution means that central administrations will limit their ability to supervise and direct the conduct of officials in local jurisdictions; an independent judiciary provides a way for central officials to ensure that local jurisdictions meet their general obligations, and that they act within the limits of the law.
4. the kinds of mechanisms available in different political and economic systems to encourage local official responsiveness to citizen/consumer concerns and preferences; and
5. the potential costs, as well as benefits, of allowing local jurisdictions autonomy, in terms of the possibility of conflicts with central planning goals, abuse of minorities, etc.

This framework would be useful both at the field project level, and in policy dialogue situations, e.g., in the Philippines where a new regime is seeking to restructure political relationships with the declared aim of strengthening participatory democracy.

c. Public Service Industry

This analytic framework appears promising for some types of services delivery problems. It relies on the ability to separate provision (i.e., financing) of a public good or service from its production (i.e. activities involved in making the good or service available to consumers). This creates the opportunity to use quasi-market competition to encourage efficiency in production of public goods and services.

Private sector producers of goods or services would include local engineering firms willing to design and supervise construction of schools or health clinics; construction firms willing to build those structures; farmers willing to maintain, under contract, dirt, gravel or laterite surface roads through timely pothole repairs; etc.

A DFMD team might be fielded to provide theoretical backstopping for development projects to delegate control over certain services to local jurisdictions. At a more macro level, a team might provide advice on design of a responsive political system in a particular country context or, as a test case, for some component subdivision. Teams might likewise undertake development of comparative research projects. In scope, research could be either cross-regional within a single country, or

cross-national. Topics could include monitoring and evaluating performance and impacts of institutional arrangements designed (with or without local input) to promote specified outcomes, e.g., better operations and maintenance of irrigation systems or local highway construction and maintenance agencies.

A DFMD team could provide advice, in situations where public agencies have had difficulty providing adequate levels of service through in-house production schemes, on the range of activities best contracted out for production. Factors to consider here include the range of firms currently active, conditions governing entry into the market by other firms, ability of the jurisdiction to produce the service itself, capacity to contract with other jurisdictions which may be producing the service, etc. The team could also advise mission and host country personnel on conditions which have to be met in the private sector before entrepreneurs will consider contracting an attractive option. These include, among others, availability of appropriately-trained personnel.

d. Mobilizing Local Revenues

Decentralized revenue mobilization issues have been examined in detail by the S&T/Syracuse Local Revenue Administration Project (LRAP). Project personnel have focused on a number of obstacles to decentralized financing across a range of activities. They have also developed strategies, in many cases, for dealing with these obstacles.

Once decentralized finance has been authorized, analysis will initially center on conditions at the local level.³ Tax bases there may be inherently quite limited by low levels of economic development. The range of revenue bases, e.g., land, income, market transactions, transportation, etc., available in a local jurisdiction must first be identified. Analysts must also determine, for each situation, feasible financing mechanisms, e.g., user fees, taxes and in-kind or labor contributions. Then tax rates which can be applied to identified bases must be calculated, from three perspectives:

1. revenue productivity
2. encouraging voluntary compliance with tax provisions (equity considerations); and,

³ This section draws heavily on Roy Bahl, Jerry Miner and Larry Schroeder, "Mobilizing Local Resources in Developing Countries," *Public Administration and Development*, Vol. 4 (1984), 215-230.

3. promoting rather than preventing economic growth in the jurisdiction.

Designing tax institutions to promote efficient performance by tax collectors also requires close attention. Efficient design will provide career incentives and monetary rewards for tax system administrators.

If local revenue potential is too limited to meet funding requirements for priority activities, even with earmarking of local funds for local goods and services, revenue sharing through block and categorical grants must be considered, to encourage both local officials and tax payers to support programs.

A DFMD team could provide analytic support for decentralized financing initiatives, along lines just described. Teams could also be mobilized, as local jurisdictions begin to raise funds, to provide training (accounting skills, literacy, familiarization with contracting possibilities, etc.

The DFMD project could provide training as necessary to such mission field activities. As local jurisdiction begin to raise funds, literacy and accounting skills become indispensable. So too does clear understanding of the purpose of contracting operations, and the ways local contractual providers might adapt and improve techniques to improve service levels.

e. Co-Production

Is it possible to deliver quality services at reasonable cost without consumer co-production? Options here - in areas such as health, education, policing, and some renewable resource management problems - range from citizen informal assistance with road maintenance, to upkeep of tertiary irrigation canals by organized user maintenance groups, to policing of village forest areas or control of over-grazing on pastures. Parental involvement in primary education will be critical, as it will in provision of family health services.

DFMD action in any of these examples would involve technical assistance to assess, with users, the kinds of strategies which would be appropriate under specific problem and context conditions. DFMD TDY technical assistance might also help mission personnel in policy dialogue with host country officials, by providing, e.g., a comparative perspective on the risks and benefits of co-production.

12. Applied Research Program and Hypotheses

The research problem of this project will be to determine what kinds of local⁴ institutional and fiscal structures will most encourage effective initiation, management and recurrent cost financing of specified local development functions and donor- or government-financed infrastructure projects. Comparative research will focus on institutional arrangements to promote:

1. local initiative in creating, operating and/or maintaining low-cost infrastructure projects, e.g., light vehicle tracks, small-scale irrigation systems, soil erosion control works, local education, rural health programs, etc.

4

"Local" as used in this discussion includes everything from individuals working on their own property to district-level governmental institutions. It includes, e.g., quarters; hamlets; villages; administrative units which group hamlets or villages, such as the Nepalese panchayats or the Bangladeshi upazillahs; district governments; and special purpose institutions at any of these levels.

While recognizing the difficulties in delimiting the term "local", Norman Uphoff has offered a somewhat more restrictive definition ("Analyzing Options for Local Institutional Development" [Special Series on Local Institutional Development No. 1] , Rural Development Committee, Cornell University, October, 1984, pp. 11-14). He defines as local the community or

2. operation, maintenance and financing of recurrent costs of capital infrastructure, e.g., rural roads, bridges, ferry services, health and educational facilities, irrigation networks, etc., by local user groups, local general purpose jurisdictions and local special districts; and,
3. locally-developed and -operated renewable resource management schemes, e.g., farm forestry, pasture use regulation, watershed management, fisheries management, etc.

4

(continued from previous page) - village level, the component subdivisions of quarters and hamlets or neighborhoods, and the "locality", a grouping of communities which trade and cooperate with each other. Uphoff does not include individuals and families because they do not face the kinds of collective action difficulties -confronting the immediately superior institutions of quarter, hamlet, neighborhood, community and multi-community localities. He also excludes the sub-district and district level, as too distant from individuals and families to be considered relevant sources of help or cooperation.

The definition of local used here expressly allows consideration of the interrelationships among private individuals, families, and firms, and governments up to the district level. Many of the problems analyzed involve some form of coordination among private and collective activities, e.g., education, health, management of soil conservation systems or certain kinds of irrigation networks.

Research will seek to isolate the impact of institutional variables by comparing provision of locally-desired goods and services across jurisdictions which are similar in all respects except institutional arrangements.

DFMD-organized research will test specific hypotheses in AID assisted countries. Suggested hypotheses follow.

1. Local capital infrastructures will be better maintained by autonomous local jurisdictions than by central bureaucracies, assuming local jurisdictions have adequate funds for operation and maintenance.
2. Local decentralized, general purpose jurisdictions which incorporate multiple autonomous offices will produce higher levels of local initiative in creating and maintaining infrastructure and in managing renewable natural resources than will local decentralized general purpose jurisdictions with a limited number of offices controlled by a single hierarchical superior.
3. Local, decentralized jurisdictions which include special districts in addition to general purpose governments will be characterized by higher levels of local initiative in creating and maintaining infrastructure, and managing renewable natural resources than will local decentralized jurisdictions organized under a single general purpose government.

4. Local, decentralized jurisdictions authorized to both produce desired goods and services and contract for desired goods and services with other governments and private suppliers will function more efficiently, or generate higher levels of citizen satisfaction, or both, than local decentralized jurisdictions which can only produce, but not contract for, desired goods and services.
5. Among devolved, autonomous local governments, those with authority to design goods and services, without having to conform to restrictive national guidelines, will initiate, finance and manage more activities.
6. In currently centralized regimes, where local government activity is weak, purely formal, or non-existent, incremental delegation of authority over specific functional areas will prove more effective in encouraging local government activity than will direct devolution of general purpose governmental powers to local jurisdictions.
7. It is as easy to achieve fiscal decentralization under a unitary system of government as under a federal system. (LRAP)²

⁵ Local Revenue Administration Project, Syracuse University Cooperative Agreement with ST/RD.