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Strengthening Municipal Government

by

Kenneth Davey

June 1989

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DISCUSSION PAPER

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The World Bank

Strengthening Municipal Government

DISCUSSION PAPER

STRENGTHENING MUNICIPAL GOVERNMENT

EXECUTIVE SUMMARY

i. In recent years, there has been a growing emphasis on promoting local government responsibility for the management of urban development in the context of a wider interest in "decentralization." The questions posed by this paper are: what are the capabilities necessary for local government to take on this new role, and how can they best be developed?

ii. There are five key areas which condition the effectiveness of local government: structure, functions, internal organization and process, staffing and financing.

Structure

iii. In terms of optimum size, municipalities have to balance the advantages of efficiencies of scale against the disadvantages of being remote and unaccountable. But if municipal government is to plan and regulate urban growth, it needs jurisdiction over both the urban core and its areas of future expansion.

Functions

iv. There are strong managerial advantages in seeking a clear definition and separation of municipal responsibilities. In a situation in which everyone is responsible, no one may really accept responsibility and it is hard to hold anybody to account. However, the obstacles to achieving this should not be underrated as precise demarcation of responsibility runs against the grain in many political and social cultures.

Internal Organization and Process

v. Legislative power within most local authorities rests with a council which has responsibility for by-laws, budgets, taxation, borrowing, planning and policies. Executive power consists of operation of services, preparation of budgets and authorization of expenditure, appointment and control of staff, preparation of business for the council and the determination of individual cases within its regulatory functions. It may be vested in any one of the following:

- (a) Council committees--involves all or most of the council in executive responsibility. It keeps councillors aware of the details of daily public business, but this can make the execution of business a slow and cumbersome process.
- (b) A "cabinet"--invests executive responsibility in a small group which channels all business to the council and co-ordinates control over the departments. Individual members usually undertake a "ministerial" responsibility for a group of council functions.

- (c) A "strong" mayor--combines the roles of ceremonial and political leader and chief executive of the local authority. The mayor usually has the power to veto council decisions but can be overridden by a large majority. This system has scope for rapid, cohesive action, but places enormous demands and responsibilities on one person.
- (d) A "strong" manager--advises and prepares all business for the council, submits and administers the budget and appoints and supervises heads of department. This system provides integrated and professional management, but can deprive councils of experience in making hard operational decisions.

vi. Overall, the most appropriate model of management for local authorities in developing countries emphasizes a combination of tight control of strategic direction by central management, with substantial decentralization of responsibility for day-to-day operations and resource use.

Staffing

vii. Staff are employed: (i) by municipalities collectively (a "unified service"); (ii) by the national or state civil service (an "integrated service"); or (iii) by the individual municipality directly (a "separate service"). These systems are not mutually exclusive. Staff above a certain level of salary or rank may be employed on a unified or integrated basis, and below that level by each municipality separately.

viii. There is a fundamental need to ensure that people of the right caliber and qualification are attracted to local government service and that appointments are made on the grounds of merit. People of ability need to be convinced of their chances of promotion, so an integrated service perhaps offers the best career prospects since the field of potential promotion encompasses both the national and local establishments. On the other hand, the staff are more likely to develop a sense of loyalty to the locality under a separate system.

ix. The issues that arise in staffing are not ones which are conducive to cut-and-dried answers. What must be borne in mind, however, is that, for all the other reforms suggested in the paper to succeed, coherent training plans and programs should be devised consistent with a commitment to staff development within the municipalities.

Financing

x. Financial strength is clearly crucial to municipal effectiveness. The key to this is the buoyancy of the municipal revenue base, in other words, the extent to which tax bases expand in response to forces operating on the expenditures they finance. However, buoyancy is heavily conditioned by the political and administrative costs of exploiting it. Two simple rules obtain. First, taxation is much easier if the object and the extent of its liability are

automatically identified and do not have to be sought out. Second, taxes (or charges) are more readily assessed and paid when those physically paying them can pass on the ultimate cost. With this in mind, the paper identifies the most buoyant areas of revenue as:

- (a) local income taxes (or income tax surcharges) in countries with a high percentage of wage earners;
- (b) sales or transaction taxes like octroi where liability is automatically declared (e.g., by goods passing a check post); and
- (c) forms of registration tax like the Indonesian motor vehicle tax or business licensing where the payer approaches the municipality (and not vice versa), where liabilities are hard to conceal and incentive for compliance is high.

xi. By the same token, property tax, which is by far the most common form of local tax in Africa, Asia, and the Americas, is much less buoyant, as effective exploitation depends on a constant process of updating data.

Accountability

xii. A municipality is accountable in two directions; (i) to its electorate and, (ii) to central government. It is difficult for municipal leadership to undertake its more challenging tasks (including revenue improvement) unless it has the legitimacy of declared electoral support. To avoid municipalities' relationship with central government becoming a cynical game characterized by mutual irresponsibility, it is vital that the central agency play a positive and supportive role.

External Intervention

xiii. There are two pre-conditions for effective external intervention. The first is the receptivity of central government and its ability to counter strong vested interests in support of the intervention. Second, the interventions need to be seen by the municipalities themselves as supportive, as the response of local authorities to external initiatives will depend upon their own perceptions of their best interests.

Conclusion

xiv. Improving public administration is usually an uphill task but effective municipal government is not an idle dream. A few vital, common characteristics are:

- (a) responsibility for a hard core of functions, including roads and public transport, preventive health, water supply and sanitation, land use and building control;
- (b) responsibility both for capital construction and for operation and maintenance of infrastructural services;

- (c) access to buoyant taxes on income or expenditure, whether by direct levy, surcharging or tax sharing;
- (d) regular accountability to the electorate; and
- (e) a clear focus of executive authority.

STRENGTHENING MUNICIPAL GOVERNMENT

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STRENGTHENING MUNICIPAL GOVERNMENT

I. OBJECTIVES OF MUNICIPAL DEVELOPMENT

A. Introduction

"These reforms...aim at developing local government capabilities, reducing central government share of urban infrastructure financing by increasing local resource mobilisation, and increasing efficiency by improving resource utilisation."^{1/}

1.02 This above quote is by now a familiar agenda. A municipal management project in Sri Lanka, Phase 3 of the Calcutta Metropolitan Development Program, the Secondary Cities Project in Thailand, the Accra Rehabilitation Project in Ghana, the Cukurova Project in Turkey, Fortamun in Mexico...these are but a few of the World Bank/UNDP assisted programs which seek a greater role for, and improved performance by, municipalities in urban development. All stress consistency with national government policy.

1.03 But what does it take to "develop local government capabilities?" This is the issue addressed in this paper. What is meant by "capability" and what factors determine it? How can those factors be made more conducive to effective performance, if need be?

1.04 The paper identifies five sets of specific institutional arrangements which condition the effectiveness of municipal government:

- (a) structure,
- (b) functions,
- (c) internal organization and process,
- (d) staffing and
- (e) financing.

These will be examined in turn in specific sections of the paper. But it is not only these specific arrangements which determine the effectiveness of an organization. It is also influenced heavily by the values and expectations of its members, by an organizational culture to which history, custom, politics and style contribute in substantial measure. These factors are hard to define and often hard to change. But they will interact with changes in the institutional arrangements and cannot be ignored. And then there are the critical issues of accountability and central local relations which will be discussed in Chapter III.

^{1/} Staff Appraisal Report, Indonesia Urban Sector Loan, World Bank, 1987.

1.05 But first we must ask why reform is desired and what it is hoped to achieve.

B. Decentralization and Municipal Reform

1.06 The current, widespread concern to enhance the roles and performance of municipal government is part of a wider interest in "decentralization." Greater devolution to state and local representative bodies is only one of the changes pursued under this banner. Others include greater delegation to field officials, cooperation with voluntary and communal bodies, and more involvement of the private sector through privatization, joint ventures or outside contracting. This wider interest in decentralization has been surveyed by Rondinelli, Cheema and Nellis.^{2/} They attribute it to three major factors:

- (a) dissatisfaction with the results of centralized planning and resource allocation;
- (b) a growing concern for more diffused and equitably distributed development, and
- (c) greater financial stringency on the part of national governments, leading to the wish to mobilize resources outside their immediate control.

1.07 These motives underlie the concern for municipal development. The analysis behind it can be more precisely defined. The argument goes as follows:

- (a) Urban populations in developing countries are continuing to grow at an average of 3.8 percent per annum. Increased rates of investment in infrastructure and improved maintenance are needed both to meet basic human needs for water, shelter, etc., and to increase the efficiency of industrial and commercial enterprise. (The Indonesia Urban Sector Loan SAR already quoted compares total public expenditure on urban infrastructure of Rp 470 billion in 1985/86 with a "conservatively" estimated need of Rp 900 billion per annum "to meet reasonable growth needs and overcome service backlogs at minimal levels of service.")
- (b) Up till now, investment has been heavily dependent upon national government resources. These are overstrained by growing debt service, the revenue impacts of adverse terms of trade, the burden of maintaining past investments, etc., and can barely support present levels of expenditure, let alone finance more.
- (c) In consequence, there is a need to improve the efficiency of existing levels of service and investment, to get more out of current resources and to mobilize additional resources,

^{2/} Decentralisation in Developing Countries: A Review of Recent Experience; World Bank Staff Working Paper No. 581, 1984.

particularly from local tax payers and users who benefit most directly from urban infrastructure.

(d) Both objectives point to an enhanced role for municipalities. Greater municipal responsibility can improve efficiency because:

- local preference and knowledge will improve investment choice;
- given the diversity of physical, economic and social conditions in most countries, no centrally determined program can fully reflect the pattern of local needs and demands;
- local accountability will improve project execution;
- centralized agencies of government lack the capacity for close and incorrupt supervision of operations in scattered towns;
- local government can provide a focus for coordination of sectoral investments with each other, with operation and maintenance capacity and with physical planning strategy; and
- municipalities are usually responsible already for operation and maintenance.

(e) Similarly, municipal government is best placed to raise additional resources because its taxes and charges fall directly on local beneficiaries and tend to be exploited well below their potential.

1.08 There are counterarguments. Decentralization can be regarded as dangerous to national integration. It can be held to weaken macroeconomic policy, particularly where national fiscal policy aims to restrain public expenditure and taxation. It can perpetuate regional disparities and inequality in the standards of public services if the latter are solely dependent on the local tax base. But excessive monopoly of power is potentially far more divisive. Local responsibility need not preclude national interventions setting minimum standards, contributing finance and expertise, influencing levels and directions of spending and equalizing the resource base. Most of the problems of decentralization can be solved if the fundamental challenge is faced: finding a match between the devolution of responsibilities and resources and a balance between central and local discretion.

1.09 The attention now being given to the role and performance of municipal government is in marked contrast to the international fashions of the 1960s and 1970s. Then national policies and investment programs frequently undermined and bypassed local government. Tanzania actually abolished local government in 1972, only to revive urban councils six years later. No municipal elections were held in Pakistan for 15 years before 1979 and the majority of Indian local authorities were under suspension throughout the 1970s. Major local taxes were abolished in countries as dissimilar as Brazil, Kenya, Mexico and Nigeria. Construction of urban infrastructure was often undertaken directly by central ministries of urban development and public works or entrusted to parastatal development authorities, housing corporations or water boards.

1.10 Generalizations based on international comparison are always risky, and exceptions, easy to find. But the decline of municipal government in the 1960s and early 1970s and the attempt to reverse it over the last decade are unmistakable trends. Fiscal strain on central governments and the growing

problems of maintaining services in cities are major causes. But "fashion" undoubtedly plays a part, particularly in the interventions of aid donors. Sixty-four World Bank loans for urban development have components aimed to improve the operation of municipal government. And institutional reform is contagious. Current interests in decentralization in Algeria, Morocco and Tunisia are frequently attributed to "vibrations" from the Mitterand reforms in metropolitan France.

C. Municipal Effectiveness

1.11 The rationale defined earlier provides an agenda for municipal reforms. Various national or local programs are consistent in seeking to make municipal government more effective. Effectiveness, in turn, is defined in four ways:

- (a) technical competence in the choice, design and execution of investments in urban infrastructure and in its operation and maintenance;
- (b) financial viability, based upon vigorous exploitation of the local revenue base and sound financial management;
- (c) efficiency in the use of resources, through good budgeting, project appraisal, manpower planning and supervision and,
- (d) responsiveness to the needs arising from urban growth, with ability to plan the rational development of the city and its services ahead of, or at least in pace, with demand.

1.12 These objectives are based upon a model of municipal government--an image of what a municipality should be. It is a model which stresses self-sufficiency--the dependence of the municipality on its own technical skills and on its own revenue base, on its autonomous tax and charging resources. It is also a very managerial model in which the municipality, embodying the community, takes control of its own affairs. It determines the future pattern of urban expansion and redevelopment through coordinated physical and investment planning and effective implementation and regulation. It decides how much tax to expect from its citizens and what level of service to provide in return. ("Managerial" is used in this paper to describe a pattern of behavior, not administration by professional managers).

1.13 The aims of this reform agenda are both laudable and ambitious. By its standards, many municipalities in the third world are ineffective. Services are poorly maintained, symptomized by leaking water mains, pot-holed roads and refuse-filled drains. Liabilities to contractors, pension funds, income tax authorities exceed liquid assets. Efficiency is compromised by excessive administrative overheads and an overmanned, undersupervised labor force. Service expansion is purely responsive. Ministries site, universities and airports, businessmen build multi-story commercial blocks and squatters settle where they will: the municipality responds to the loudest clamor, with a road, a watermain or a sewer.

1.14 More fundamentally, the culture of municipal government is rarely self-sufficient and managerial, more often manipulative, dependent, reactive. There are good reasons for this and they have to be understood if one hopes for change.

1.15 The first reason is that local government comes in all shapes and sizes. Excluding capital cities, the average population of a municipality in Indonesia is 500,000, in France 1,500. There are cities like Istanbul with two-tier systems of local government where an elected metropolitan government can take strategic, conurbation-wide decisions; others, like Calcutta, with a single elected tier of 108 authorities in the metropolitan area. There are city governments like Bombay which run schools, hospitals, water and sanitation, electricity supplies and bus services, and others which do little more than light the streets (dimly) and collect the refuse (or some of it). The inherent capacity to be self-sufficient and to take charge of urban development varies enormously.

1.16 The second point concerns traditional expectation. The model of the self-sufficient, managerial municipality is very Anglo-Saxon. It harps back to 13th Century merchants or 19th Century industrialists incorporating their city under charter from the state to win some independence from central bureaucracy and improve its environment on the back of newly-found growth and prosperity. Whether in Birmingham or in Bombay, the municipality started as an island of urban self-government in a sea of rural central administration, a real expression of local aspiration, civic improvement led by civic fathers.

1.17 The model of the self-sufficient municipality has Latin parallels with a longer lineage from the Greek city-state. But these are not universal traditions. In many countries municipal government is little more than the local presence of central administration with a representative implant or veneer. The executive apparatus is an extension of central ministries. The elected council can question the bureaucracy and can supplement its nationally determined budgets with locally raised taxes. It can influence, but not direct. Chief executives have dual loyalties, of which those to central government are the most compulsive in practice.

1.18 Third, a managerial, self-sufficient culture requires self-esteem and self-confidence. These have been hard for local government to sustain in recent years in many countries. On the one hand, both population and economic growth have faced city government with constantly rising demands for services. On the other hand, their capacity to respond has been constantly undermined by central government decisions to abolish local taxes or transfer functions to parastatals and by losses of professional staff to more glamorous organizations which are less exposed to public clamor and which can luxuriate in design and construction without the tedium of operation and maintenance. Municipalities have been hectorred by ministers and treated contemptuously by public corporations who disregard their planning regulations and ignore their property tax and water rate bills. The best a mayor could do was to manipulate--to cajole--other agencies into investing in the city, and use the municipality's own meager resources to keep the most clamorous voters and creditors at bay in a flexible, hand-to-mouth style. The Turkish municipal budget is a typical legacy of the 1960s and 1970s. It includes unrealistic expenditure estimates which avoid open

choices between councillors' pet projects; it is then balanced by inflating the revenue estimates, usually with a fictitious figure for sales of land. But real decisions on which expenditure to undertake are made from day to day by the Mayor on the basis of actual cash availability. It is a process designed to meet legal requirements and avoid open conflict. It is a rational response to the realities of municipal management in the 1960s and 1970s, but a far cry from the concept of the municipality as the guiding hand of the city's long-term development.

1.19 This points to the final factor: the exposure of local government to political forces far greater in degree than that of other levels of government. There are several reasons for this, mostly obvious. One is the physical accessibility of the municipality to its clientele. Another is its responsibility for functions which are of daily importance to very large numbers of citizens like water supplies, public transport, shelter or primary education. Municipal government is at least nominally controlled by an elected body with a bigger ratio of members to voters than higher tiers of government. Moreover, the political, technocratic balance is totally different. In a ministry a single politician is surrounded by an army of professionals and can rarely purport to comparable knowledge of subjects under decision. But in a municipality a substantial body of politicians is directly involved in decision-making with much direct knowledge of the issues under discussion; many of these issues are technically simple. The professional viewpoint is protected neither by expertise nor weight of numbers. Municipal functions are employment intensive, using large numbers of low-skilled labor, often heavily unionized and linked to the political system. Leadership may be impermanent; mayoral terms of office in some Latin American countries may be as short as two years with no right to re-election; centrally appointed executives like municipal commissioners in India may be continuously shuttled.

1.20 This is not an environment which encourages politically overt and risky decisions such as cutting off supplies to water rate defaulters, demolishing unauthorized constructions or firing redundant or incompetent labor. By contrast the managerial approach, i.e., the readiness to take initiatives and tough decisions, requires confidence and ability to deliver public benefit which will outweigh the political cost of offending individual interests.

1.21 This is not to say that municipal government is incapable of effective and efficient management. There are striking contrasts in these respects, even within individual national systems (e.g., between Bombay and Calcutta in India and between Toamasina and Antananarivo in Madagascar). Some of those differences can be attributed to specific institutional features; Bombay has a much more comprehensive set of boundaries and functions and a more elastic revenue base than Calcutta. Until recently, it was free from the threat of suspension by state government. But differences in system do not explain everything. Effectiveness and efficiency are products of an organizational culture which is influenced, but not solely determined, by its constitution and resources.

1.22 The agenda of reform has to be concerned with specific characteristics which encourage or impair the effectiveness of municipalities: issues of size and boundaries, external control and internal process, and human and financial

resources. But to cope with the challenges of a growing city, municipal government needs fire in its belly. This comes from ambition, personal and communal, political and professional. Institutional reforms will only work if they are consistent with these ambitions, if the rewards exceed the penalties, the promises exceed the risks. But how performance is rewarded or penalized is in turn a function of accountability.

1.23 The paper returns to these basic issues of accountability and organizational culture in Chapters III and IV. Chapter II examines more specific institutional factors.

II. INSTITUTIONAL FACTORS

A. The Structure of Local Government

Urban/Rural Relations

2.01 Is urban government part of, or separate from, the system of local government in the rest of the country? This is the first question in analyzing the structure of municipalities.

2.02 In many countries, municipalities are virtually urban islands. In East Africa (Kenya, Tanzania and Uganda) and South Asia (Bangladesh, India and Nepal, Pakistan and Sri Lanka) urban authorities have separate legal status, function and resources to those of rural administrations. The same is true in Jordan, Turkey and Francophone North Africa.

2.03 Other countries do not distinguish legally between urban and rural local governments. A Zambian District Council, a Nigerian Local Authority, a Municipio in Brazil or Philippines may be confined to a large town, or cover a smaller town and its rural hinterland. Indonesia distinguishes between kotamadya, purely urban authorities, and kabupaten which administer one or more towns and surrounding rural areas, but there is no real difference in their status and functioning.

Population Size

2.04 A second distinguishing factor is the size of individual local authorities. A single municipal government can incorporate anything from Shanghai or Sao Paulo's 10 million people to the 2,000-5,000 who comprise 60 percent of Turkish municipalities.

2.05 National approaches differ. Only a handful of Indonesian second-tier authorities fall below 100,000. Nigeria reorganized local government in 1976 and amalgamated many smaller local authorities to achieve a target size of at least 150,000 people. Brazil, in contrast, confers identical municipal status on the City of Sao Paulo with 10 million people and several hundred municipalities with less than 5,000. The existence of very small authorities may simply represent an acceptance of a historical legacy, but Turkey continues to create very small municipalities, 200 under 5,000 since 1984. Some countries accord varying legal status to local authorities of different sizes, which may affect their functions, their internal organization or the degree of central control. This is common in South Asia: Sri Lanka has Municipal Councils in 12 larger towns and Urban Councils in 39 smaller settlements and most Indian States have a hierarchy of Municipal Corporations, Municipal Committees and Town Area Committees.

Tiers of Local Government

2.06 Municipalities are frequently a third tier of government with the intermediate level occupied by some form of state or provincial government. The latter may vary in constitutional status from large federal units like an Indian

State to an upper-tier local authority like the Philippine Province or a level of deconcentrated administration such as the Kenyan Province. Very large cities occasionally occupy this intermediate status, with or without lower-tier municipalities. Beijing, Shanghai and Tianjin are autonomous cities with provincial status, so are Bangkok and Jakarta.

2.07 As far as local government itself is concerned, a single-tier authority is normal in countries where urban administration is separate from that of rural areas. There are exceptions. Eight large Turkish cities have a two-tier system of metropolitan and district municipalities. More common is some form of administrative decentralization within large municipalities like Bombay's zones, Rio de Janeiro's 20 regions or Jakarta's four mayoralties. In Tunisia quite small municipalities are divided, like Paris, into arrondissements.

2.08 Two-tier systems are more common in countries where urban and rural local government is integrated. This is particularly the case in industrialized countries where the upper tier, like the Danish and Swedish counties or the Japanese prefecture, may be responsible for major social services like hospitals, secondary, tertiary education or social security to achieve efficiencies of scale.

Problems of Scale and Fragmentation

2.09 Two aspects of structure have considerable impacts on the effectiveness of local government. They are often, but not always related.

2.10 The first concerns efficiency of scale and the ability of smaller authorities to afford or utilize the professional skills and equipment their functions need. Local authorities with small populations will find it extremely expensive to maintain a mechanical road maintenance unit or water treatment plant, for example.

2.11 The second problem relates to the management of larger cities. If municipal government is to plan and regulate urban growth and to meet its requirements for trunk infrastructure, it needs jurisdiction over both the urban core and its areas of future expansion. This is difficult where the established city is itself fragmented between municipal jurisdictions as in Calcutta or Manila, or where the periphery is excluded.

2.12 The two problems are interrelated where cities are fragmented, often with a substantial municipality in the historic core, but a range of smaller authorities in the suburbs. But problems of size also arise with small isolated towns in the rural hinterlands.

Solutions: Amalgamation

2.13 Several strategies have been tried to cope with these problems. The first is the amalgamation of neighboring municipalities, usually to achieve a target "efficient" size, but on occasion to unite jurisdictions within a conurbation. This was much favored in Western Europe in the 1960s when reformers were preoccupied with strategic planning, particularly in the field

of transportation, and with equalizing standards of service provision. A number of reorganizations did take place. Since 1951 the number of Swedish communes has been reduced from 2,500 to 284. In West Germany interventions in different states between 1966 and 1978 brought the total of basic units of local government down from 24,800 to 8,506. Reorganization in England and Wales in 1974 reduced the number of authorities to a third of the former total. This was prefaced by a Royal Commission Report which subscribed to some rather tenuous conclusions about the optimal size of population for the performance of particular functions, half a million for an education service being the most influential. The Nigerian reform in 1976 was inspired by a similar philosophy with 150,000 as its minimum population size for a local authority.

2.14 Amalgamation is always a controversial strategy. Municipalities resist joining with neighbors for all sorts of reasons, e.g., loss of historic identity, traditional local rivalries, the vested interests of office holders, fear of higher tax rates or lower quality services if prospective partners are poorer, possible domination by a different political group. Resistance has effectively blocked it in France. When elected governments returned to power in Nigeria in 1980, many of the amalgamations were reversed and the number of local authorities doubled, while a fresh round of military government later reimposed the 1978 pattern.

2.15 The rationale of amalgamation has also come under increasing question over the last decade. This is partly due to shifts in conventional wisdom: "small is beautiful." More substantial is a growing belief that efficiency is more a product of accountability than of scale. Accountability may be harmed if local authorities become too big and too remote, and if local communities cease to identify with them.

Solutions: Boundary Extension

2.16 The second strategy is to let core municipalities expand their boundaries and absorb areas of peri-urban growth. Bombay Metropolitan Corporation boundaries were expanded successively in 1950, 1957 and 1965 to increase its area from 27 to 160 square miles. Karachi Metropolitan Corporation has similarly pushed out its borders progressively to take in areas newly developed by the Karachi Development Authority.

2.17 Turkey has a particularly flexible system. Municipalities can annex adjoining areas by a council resolution supported by a referendum of the inhabitants of the area in question. Indeed, it is normally the residents of peripheral settlements, particularly the unplanned gecekondu, who agitate for inclusion in municipal areas to gain rights to extension of urban services. This might be described as a process of pre-emptive development. Settlements grow unplanned and unserved in peri-urban areas; the residents then campaign successfully to get themselves incorporated in the adjoining municipality and served by its infrastructure. It is unsatisfactory in that such development does not always take place in the most efficiently serviced locations, (one reason perhaps for lower land prices) and environmental conditions are poor in the informal period prior to any annexation and infrastructural extension. But given the pace of urbanization in Turkey it is surprising how quickly services,

particularly water supply, get extended to peripheral settlements. The relatively easy legal process of annexation is one contributory factor.

2.18 Territorial expansion by core municipalities is a feasible strategy where urban and rural administrations are under separate systems and peripheral areas are unincorporated. Such is the case in Turkey and until recently on the fringes of Bombay and Karachi. But where the periphery is itself under other municipal (or even provincial) jurisdictions as in Jakarta, Manila or Medellin for example, annexation effectively means amalgamation or "swallowing up" in the eyes of the peripheral community, and strong political resistance can be expected. A complex legal process is usually involved including public enquiries and legislative amendment; this magnifies the opportunities for obstruction. Indeed the record of success is meager. Suburban local authorities defend their separate identity zealously, not least because their elected representatives will be greatly outnumbered in any merger with the core city.

2.19 Where municipalities like Bombay have been able to expand with the physical growth of their cities, they can reach sizes which pose two kinds of challenge. The first is to the state. One obstacle to the regular proposals to set up a metropolitan government for Calcutta has always been the reluctance of the West Bengal State Government, representing 30 million people, to create a political rival authority of 12 million. Central government appointment of chief executives such as the Mayor of Seoul or the governors of Bangkok and Jakarta is one response to this problem. The second issue is the difficulty of maintaining effective control of a huge municipal bureaucracy and of sustaining local representative character and accountability. We will return to this later on this report.

Solutions: Metropolitan Authorities

2.20 The third strategy is to superimpose an upper-tier authority both to undertake functions which require economies of scale and to provide strategic planning and development of trunk infrastructure.

2.21 There are two institutional variations of this strategy. The upper-tier may be an elected body (i.e., a form of local government at metropolitan level) or an appointed parastatal authority. Istanbul Metropolitan Municipality represents the first option: the Bombay, Calcutta or Madras Metropolitan Development Authorities, the second.

2.22 On paper, the Turkish system of metropolitan government is exemplary. The metropolitan municipalities are responsible for strategic planning and the key supporting functions: water supply, sewerage, main roads, public transport and refuse disposal. Their boundaries include the peri-urban fringe. Their coordinating powers extend to all public agencies, central and local, and their revenues are elastic.

2.23 Again on paper, there seems little reason why other conurbations with fragmented municipal jurisdictions should not adopt the Turkish model. In practice, however, many obstacles arise. One is the reluctance of central government to endow a local authority with the powers, boundaries and resources

needed for the task. When the metropolitan county councils were established in Britain in 1974 political opposition robbed them of control over the peri-urban fringe. This led to their abolition 12 years later. Even the Turkish Government originally intended far more restricted powers for metropolitan municipalities, and only extended them when the ruling party won control of them at their first election in 1983.

2.24 Another obstacle is the relationship between the tiers. For a two-tier system to be effective, the lower tier needs to work in a strategic framework laid down by the upper tier. In a host of everyday decisions such as the grant of planning permission for new buildings, the siting of a drain or the construction of a suburban road, the lower tier has to work within policies and layouts determined by the upper tier. Municipalities find such constraints upon their patronage and discretion particularly galling, since all such decisions are politically sensitive and involve personal gains or losses.

2.25 Various arrangements are tried to reduce friction between tiers of local government. Indirect election of the upper tier by the lower is an example. Turkey attempted to keep cohesion by having both the metropolitan and district mayors elected on a single slate. This ran the risk that the district mayor might have only minority support in his own area; it has been discarded after being ruled unconstitutional by the courts. More telling in Turkey is the power of the purse; metropolitan municipalities have the resources to buy compliance with their investment plans.

2.26 A second option, the appointed authority, differs from the elected upper-tier authority in a number of respects. The first is the obvious lack of an elected base; although some members of the governing board may be nominated by the municipality or by mayors ex officio. The second follows from this; namely, the absence of power to raise taxes. This in turn means that such authorities are basically unsuited to operation and maintenance or debt service responsibilities for services unless, like water supplies, they can be fully funded by user charging.

2.27 For these reasons, appointed metropolitan authorities are rarely entirely responsible for a service and do not meet the need for economies of scale except perhaps in the provision of technical expertise to municipalities. They are frequently planning authorities. Coordination of investment planning may be an important role, particularly if, like the Metropolitan Manila Commission or the Madras Metropolitan Development Authority, they are recognized as a conduit for central/state government capital allocations to municipalities or utility corporations. Some like the Karachi Development Authority and the Calcutta Metropolitan Development Authority have engaged directly in infrastructural construction and land development, though dependent on municipalities or public utilities to take on responsibility for operation and maintenance. This can prove a weakness since municipalities may well be unable or unwilling to accept responsibility for infrastructure they have not planned or constructed themselves. Moreover, separating responsibility for construction and maintenance can lead to inefficient design and false savings. Although metropolitan development authorities may be tempted to undertake public works because of their concentrations of professional skill, in the long run it is better for them to be seen as playing a supportive role (i.e., helping

municipalities and other executing agencies to obtain and use resources) rather than supplanting them.

2.28 Appointed authorities may be more attractive to skilled professionals precisely because of the absence of direct political supervision. But this lack of direct accountability can also be a weakness. Powerful national politicians can pursue corrupt or wasteful purposes more easily through parastatal organizations than through central government ministries since they are untrammelled by the apparatus of public service commissions, ministries of finance and public accounts committees. The operations of the Metropolitan Manila Commission under Mrs. Marcos or the Karachi Development Authority during the previous Bhutto Government testify to this.

Solutions: Joint Bodies

2.29 The fourth strategy is to encourage municipalities to form joint boards to undertake functions requiring efficiencies of scale and wider areas of geographical coverage. These may be specific service bodies set up to run a single joint service like water supplies or public transport. Several Jordanian associations run services like abattoirs as a joint enterprise. Or they may be multipurpose organizations established to provide support to their member authorities in a range of technical fields. Minas Gerais State in Brazil, for example, has 35 regional associations of municipalities. Over half of them employ technical staff such as architects, engineers and surveyors to assist smaller municipalities that lack their own professionals. They also operate pools of road repair machinery which were originally supplied by the State Government.

2.30 French law encourages the establishment of joint bodies, necessitated by the preponderance of small communes. "Syndicats" can be formed voluntarily, by the agreement of two thirds of the communes concerned or by communes representing two thirds of the population of the area served. There are nearly 2,000 multipurpose *syndicats* maintaining roads, water supplies and social and educational services on behalf of the member communes which pay a compulsory contribution to their cost. A total of 11,664 *syndicats* provide a single service; water supplies, schools, electricity, gas and flood control are the most common. *Syndicats* are run by joint committees representing the member commune councils.

2.31 The Turkish unions of municipalities also exemplify both approaches. Most of them have been established for a single purpose such as construction of an electricity or water supply. They tend to dissolve after the initial construction, leaving individual municipalities to operate the generator, head works, treatment plant, etc., and sell bulk supplies to others. But the Union of Municipalities of the Sea of Marmara has a wider remit. Started in the 1970s largely to campaign on environmental issues, it now renders a number of practical services to its 130 members, including training, joint purchase of mechanical equipment, operation of road machinery pools and insurance. Indeed discounts on the municipal insurance premia have now replaced subscriptions as its income base. In 1987 it negotiated the purchase of over 130 machines and vehicles at an estimated saving to the members of 50 percent in discounts.

2.32 Joint bodies are occasionally statutory, as with the police authorities, public transport executives and refuse disposal bodies in the English metropolitan counties, which are constituted by the district councils. They are more frequently voluntary bodies set up on the initiative of the member municipalities themselves. Their effectiveness depends on a number of factors. One is their source of finance. Some run quasi-commercial services which recover costs from consumers. The statutory joint boards in British metropolitan counties have powers to levy a property tax rate (effectively a surcharge on the tax collected by their member districts). They are in a far weaker position where they rely on voluntary contributions from their members' own budgets. This can lead to considerable dissension on the distribution of the costs of proposed joint schemes with arguments over their benefit to different areas. Subscription and spending levels tend to be reduced to those acceptable to the poorest or least enthusiastic members.

2.33 The effectiveness of joint bodies also depends on the nature of both their functions and municipal politics. Few problems are likely if their work is confined to noncontentious, technical subjects. It is harder for them to handle more controversial and politically sensitive subjects like public transport unless there is a high degree of homogeneity and political cohesion between their member municipalities or unless they have statutory power and are not dependent upon voluntary cooperation by all their members.

Solutions: Contracting Out

2.34 The final strategy for coping with the inefficiencies of size is contracting out. Although France's 36,393 communes are severally responsible for water supply and sewerage, most communes contract provision to one of two companies who operate "concessions" nationwide. One suburban municipality in Los Angeles performs no function by direct employment; it contracts all its responsibilities such as road maintenance, refuse collection, street lighting and cleaning to external agencies, mostly to larger local authorities in its neighborhood.

2.35 Use of contractors for capital construction or for project design has always been commonplace in municipal government. It has been far less prevalent in the performance of routine operation and maintenance services, but is attracting growing interest mainly as a substitute for improving the efficiency of direct (often unionized) labor forces. It has obvious benefits for very small authorities who could never afford or adequately utilize relevant professional manpower and technology on their own. As a mechanism for improving efficiency, contracting out depends upon competitive market conditions, i.e., the existence of rival sources of provision and the unfettered ability of municipalities to choose between them and enforce contract provisions and standards. These can be constrained if a single company establishes a monopoly or if an alliance of political and business interests exists. A municipality still requires access to independent professional skills to draw up contracts with tight specifications of outputs and standards and to monitor and enforce them; here again, joint bodies can be of service.

2.36 Changes in the structure of municipal government never start with a blank sheet of paper. Even most radical reforms start with a legacy of

historical identities and political allegiance which will affect the working of any system. This is why so many different strategies have been applied to the very common problems of scale and geographical coherence, and why their effectiveness varies so much. Most change tends to be far less radical than the situation appears to demand.

B. The Functions of Municipal Government

The Range of Local Functions

2.37 The duties of municipalities vary enormously. There are a few things which most municipalities do (well or poorly): refuse collection, market administration, minor road maintenance, cleaning, drainage and lighting, provision of parks and recreation. What varies widely is municipal involvement in the following areas:

- (a) Public utilities, chiefly water and sewerage (sometimes provided by a national corporation or typically by a metropolitan corporation or a municipally controlled enterprise) and electricity (usually a national utility responsibility, but sometimes generated or distributed by local government).
- (b) Social services. Municipalities often provide primary schools and clinics, less frequently, secondary education and hospitals. They sometimes provide buildings and ancillary staff, but not the professional personnel.
- (c) Public protection. Fire services are frequently municipal; local government controls police forces in North America and parts of Western Europe, but infrequently elsewhere, although subsidiary uniformed forces may be employed to enforce by-laws.
- (d) Trunk roads, which can be a national, provincial or local responsibility.
- (e) Rental or purchase housing or servicing sites. This is sometimes a municipal activity, sometimes that of a special purpose authority.
- (f) Regulation of land use and development. This is usually a municipal function, but occasionally that of a provincial or metropolitan authority.

2.38 A number of issues arise in trying to relate the overall effectiveness of municipal government to its functional responsibilities. Are precise demarcations of responsibility possible or desirable? Is municipal government inherently suitable or unsuitable for any particular tasks? Is it better for municipal government to have a wide or narrow range of tasks? Should municipalities be responsible both for the capital development and operation and maintenance of services? These will be discussed in turn.

Demarcation of Functions

2.39 There is considerable variation in the precision with which municipal functions are defined and demarcated from other levels of government. At one end of the spectrum lies the anglophone tradition. Municipalities are separate entities with their own legal identity, budgets, property and staff. Their powers are constrained by the "ultra vires" rule: they can only perform those functions the law specifically empowers them to do. But the "ultra vires" rule usually has a positive aspect; those functions that are conferred on local government by statute very clearly belong to it and are usually performed exclusively by local authorities, however subject to supervision and subsidy.

2.40 At the other end of the spectrum is a situation typified by Brazil, where all levels of government have a general competence to do anything deemed in the public interest, and where virtually no function is performed exclusively by municipalities, apart from zoning and building control. Sao Paulo, for example, has hospitals run by federal, state and city governments, respectively. Some functions may be generally regarded as primarily municipal such as parks, roads and refuse collection, but other agencies may well intervene directly if the municipality is poor or small or if there are votes to be won. Similarly, a large and well endowed municipality may engage in services like education or medical care, which are more commonly provided by state governments.

2.41 There are also situations where central and local government responsibilities overlap because the machinery of government is not fully divided. In China and Indonesia, for example, local technical agencies often have dual status as deconcentrated branches of central ministries and departments of local government. They may well combine funding from both sources in a single field of operation or a single project. Indonesia's laws distinguish between functions which are deconcentrated to field branches, devolved to local government and "co-administered," i.e., run by local governments as agents of the center; but which function is which is not clearly defined, and in practice, most services in which local government is involved have elements of all three, depending whether a particular item of expenditure is funded directly by central ministries, local revenue or grants.

2.42 A classical management approach suggests that responsibility should be clearly defined. In a situation in which everyone is responsible, no one may really accept responsibility, and it is hard to hold anyone to account. This has been a serious problem in Indonesia, for example, where both construction and maintenance of infrastructure have often been inadequately funded because no one assumes responsibility for meeting the full cost. Mixed funding also makes strict contract control and audit difficult, particularly where each contributor insists on letting a separate contract or where each agency has a separate auditor.

2.43 But precise demarcation of responsibility runs against the grain in many political and social cultures. If one agency is exclusively vested with a particular power or responsibility, everyone else is expressly excluded. This would be regarded in many countries as confrontational and devoid of room for maneuver and consensus. Precise demarcations of municipal responsibility also mean that any arrangements for aiding local authorities with lower revenue or

technical capacity (or extraordinary service needs) have to be very explicit, requiring criteria of eligibility which may be both complex and controversial.

2.44 The other argument against the "ultra vires" principle is that it robs municipalities of ability to respond to newly emerging needs. It depends on a statutory definition made at one point in time and only capable of amendment by slow and cumbersome processes. The solution to this lies in defining municipal responsibilities, both mandatory and optional, but adding a general competence to carry out other tasks perceived to be in the civic interest provided they are not the specific responsibility of any other public agency.

2.45 In short, there are strong managerial advantages in seeking a clear definition and separation of municipal responsibilities, where these do not already exist. The political and cultural obstacles to achieving them should not, however, be underrated.

Suitability

2.46 Are there tasks to which municipalities are particularly suited or unsuited? There are a number of approaches to this question. The first is based on arguments of economic efficiency. By this test, services should be provided and financed by municipalities if they benefit local people exclusively, by regional government (state/provincial), if they benefit the city and its hinterland and by national government if they benefit the entire country.

2.47 This looks tidy, but is open to question on several grounds. It is not that easy in practice to determine which services fall into which category; grey areas abound. A sewerage system largely benefits its immediate users, but people downstream can suffer from its absence. A literate, skilled workforce is in the national interest, but communities with greater access to secondary or higher education undoubtedly gain more from it. Nor is efficiency the only criterion. Even though the benefit principle might suggest national administration of education or policing, both Britain and the United States have opted for local administration in pursuit of local democratic accountability. Moreover, grant and revenue sharing systems allow some distinction between administering and financing a service.

2.48 A second approach is to examine the nature of the task. If standardized, uniform provision and procedures are important, then it should be administered by a national agency. If adaptation to local needs, circumstances and preferences is important, it should be a municipal responsibility. A telecommunication system should be nationally administered because it depends upon standardized equipment; local variation in dialing codes or tariffs would be very confusing to users. There are no such arguments for centralized administration of parks, however, and it would not be sensible to standardize varieties of rose bush. How many square centimeters of tennis court per capita to provide at the tax payer's expense is a matter for local preference and has little implication beyond the locality (unless capturing the Davis Cup becomes a major target of national pride).

2.49 Again, however, there are major grey areas; social security is one area where Western European practice differs considerably. In Britain most benefits are distributed by a national administration (although using local government as agents for assistance with housing costs), but by local government in Denmark, France and Sweden, though with national funding. National administration is defended on the grounds of equity, i.e., the need for uniform treatment of beneficiaries; local administration, by the needs of local knowledge of applicants and their circumstances to verify their eligibility.

2.50 Looking at both industrialized and developing economies, it is not surprising that the biggest variation in local responsibility lies in the field of education. It is a grey area in terms of this report's analysis also. Equality of opportunity may suggest national administration since access to qualifications and employment should not depend upon the vagaries of local tax bases, budget preferences or curricular prejudices. Budding biologists should not be thwarted because local property tax values are low, the Mayor prefers building roads to laboratories or local headmasters prefer languages. There are opposite arguments for local administration, albeit with national guidance and subsidy to preserve some minimum standards and core elements of the curriculum. Can one define the "right" standards of educational provision in absolute terms? Is local variation above some minimum standard not desirable to encourage experiment and avoid ossification? Should civic pride and vigilance not be mobilized in both the financing and management of schools?

2.51 A third approach fastens upon the political character of local government. It can be argued that certain functions are basically judicial, requiring impartiality or professional skill in the application of rules and standards. Examples might be granting permission to build under town planning regulations, licensing a shop, lorry or bar, or valuing property for taxation. Municipal administration might be regarded as unsuitable for such functions because of its greater exposure to political pressures. Performance by central government agencies or quasi independent bodies might be preferred because of its immunity from electoral pressures or its ability to employ scarce professionals.

2.52 The force of these arguments differs considerably according to local circumstances. Some local government systems, particularly in Western Europe, have highly developed professional standards which are well protected from "political interference" by the structure of professional associations, the force of public opinion and the vigilance of the media. Conversely, immunity from political influence may not have the desired result. Those for whom a decision has major economic consequences such as applicants for town planning permission or a liquor licence, will always try to exert whatever pressure they can on the decisionmakers. The relatively open political processes of municipal government may simply bring such pressures into daylight. Vesting power in central government agencies or independent boards does not protect decisionmakers from pressure and temptation, it only shields their responses from the public gaze.

2.53 Moreover, impartial application of rules and standards is not always an entirely objective process. Judging whether the design of a building is in keeping with local environmental standards or whether an applicant for a liquor

licence is of good moral standing, involves much subjective judgement. Exclusive trust in professional judgement is not always well placed.

2.54 The international variety of municipal responsibilities suggests difficulty in arriving at any universal judgement about what tasks are suitable or unsuitable for local government. In practice, a particular "pro" or "con" becomes imperative in a particular situation. Municipal performance is so corrupt or devoid in professional competence that transfer to a more technocratic agency is imperative; or technocratic administration is so insensitive or isolated from other related decisions that municipal oversight becomes essential. Changes in technology are also relevant. Introduction of a national grid can overtake municipal generation of electricity; but computer systems can also promote decentralization because local officials can access national data banks where local technical knowledge is inadequate in fields such as consumer protection or social security can access national data banks.

Essential Functions

2.55 What range of responsibility is desirable for municipalities? Does their effectiveness depend upon some critical mass of functions?

2.56 We need to return to the proactive managerial model of the municipality. This requires local authorities to play the leading role in providing and maintaining an efficient living and working environment at a time of urban growth. There is a hard core of powers and functions which are essential to this role and closely interrelated. They comprise town planning and regulation of physical development, roads (with footpaths and street lighting), drainage, water supply, sanitation, preventive health (including refuse collection and disposal and street cleaning), parks and open spaces and public transport.

2.57 If local government is to be the focus of pro-active public response, in a situation of urban growth, these represent the essential core of municipal responsibility. Municipalities may use a variety of instruments for discharging these functions; hiring in professional services from private or other public sector agencies, engaging in joint ventures with private capital, contracting out to voluntary organizations or private enterprise or delegating to municipal enterprises or joint bodies with neighboring local authorities. In the case of public transport, the municipality's function may be purely regulatory, while the provision, private. But municipal responsibility and control have to remain.

2.58 What then of the wider range of local services? There are clear advantages in municipal responsibility for basic social services like education or medical care. It enables a local authority to integrate provision of these amenities with the physical expansion or redevelopment of the city. It enhances municipal esteem or self-confidence if mayors and councils demonstrate ability to respond to public demands for these sensitive and popular services.

2.59 Nevertheless, provision of social services is not as critical to municipal effectiveness as the hard core of physical infrastructure and development control. The political pressure for schools and medical services

is so strong that they will probably be provided in growing urban areas by whichever public agency is responsible--or even by communal effort--provided sites are allocated. They are more likely to develop on their own accord than a clean water supply, a paved road or a park. Although schools and clinics are not particularly expensive to build once land is available, they are very expensive to operate. Responsibility for social services can drain a municipality financially unless it is well funded. Bombay and Karachi, for example, can afford to operate schools and hospitals because they have an extremely elastic revenue base in octroi; Indonesian local authorities receive comprehensive central grants for salaries and considerable subsidies for construction. But many other cities are less fortunate. Responsibility for social services was nominally transferred to Zambian local authorities, for example, with no additional clear source of revenue or subsidy, and Kenyan municipalities have also suffered a progressive erosion of the funding, both central and local, of education and health. Although some communal contribution and user charging are possible at the margin, education and medical services are essentially tax-based for sound equity and benefit reasons; municipal administration is desirable, but only if supported by an adequate tax or tax sharing/grant base.

2.60 Some splits in responsibility for social services may give municipalities some of the benefit without all of the burdens. These splits are in two directions. Local authorities may be responsible for primary schools and health care, but not for secondary and tertiary education or hospitals. Alternatively, local authorities may be responsible for construction and maintenance of buildings, but not for professional staffing. The latter option has the particular advantage that municipalities are able to site schools, clinics, etc., as part of planned urban development and pre-empt national government decisions over their staffing.

2.61 Historically, municipalities have had important roles in electrification all over the world. These roles are declining fast with the development of national electricity corporations. Many municipalities (e.g., in Sri Lanka) still distribute electricity, buying in bulk from the national generating corporation. However, efficiencies of scale and national grids have squeezed out most local generation.

2.62 There may be locations where electrification is dependent on municipal enterprise; these are usually remote or small settlements far from the national grid. But in most cases, provision of electricity is not dependent upon direct municipal responsibility. Municipal provision of street lighting in new or redeveloped settlements is enough to bring power into the area; since this service is based on user charging, supply extension to commercial and domestic consumers can usually be left to individual negotiation with the electricity authority.

2.63 How far municipalities should be involved in housing and land development depends on the nature of public intervention. Again if municipalities are to take the lead role in guiding and managing urban development, it is essential for them to plan and regulate the selection of areas for housing development and the extension of trunk infrastructure to them. Actual transactions in land and installation of local infrastructure within such

areas can be undertaken by a variety of bodies including municipally owned land development companies like Turkey's HUDC's, joint ventures, non-governmental organizations or private developers. The essential role for municipalities is the town planning regulation of such development and the investment in trunk infrastructure. It is far more difficult for municipalities to keep the initiative in the latter respects if the on-site housing development is in the hands of a nationally controlled body such as a national housing corporation or a development authority constituted by central or state government like the Karachi Development Authority.

Construction versus Operation

2.64 The issue of housing and land development leads into the final question. There are many instances where municipalities are responsible for operation and maintenance of a service, but capital investments are undertaken regularly or occasionally by another agency. This may apply to major schemes of land and housing development or redevelopment, to water supply and sewerage systems, or to individual amenities like a health center, sports complex or a school. Capital development may be provided directly by a central/state ministry of urban development or public works, by a national utility or housing corporation, or by a development authority or new town corporation under central/state government control. Some municipal development banks like the Iller Bank in Turkey also construct projects and then hand over responsibility both for repaying the capital costs through a loan and for operation and maintenance.

2.65 What impact do such divorces of responsibility have on municipal effectiveness? In this case the answer is unequivocal. The practice severely undermines the capacity of municipal government. It faces municipalities with responsibility for operating facilities they have not designed. There is no guarantee they will have the resources for this. It deprives them of ability to attract skilled personnel because no ambitious architect or engineer will be content only with the unrewarding tasks of maintenance; satisfaction lies in design and construction. Absence of responsibility for maintenance may lead to false savings on design which ignore operational requirements or inflate maintenance costs. Even the construction costs may be excessive if the executing agency can simply pass them on as a loan and avoid normal budgetary constraints on outright expenditure. Above all, the practice is demotivating both professionally and politically, since the external agency gets all the kudos, while the municipality gets all the headaches. It is not surprising that municipalities often show little commitment to maintaining infrastructure which others have planned and constructed. Endless disputes arise about whether works have been completed and whether the assets are in good repair at the time of the handover; the latter can be protracted to a point where no maintenance is being carried out and deterioration sets in.

2.66 It is often argued that external agencies have to intervene because municipalities lack capacity for design and construction. This becomes a self-perpetuating argument since lack of involvement deprives them of opportunity to develop such capacity. But there is an alternative, namely that municipalities are responsible for investment but able to buy in the services of external agencies for detailed design and execution. These might be national ministries

or corporations, or private firms. Some competition in this respect might well be helpful, both in giving the municipality choice and therefore a real position of strength, and improving the efficiency of the response.

C. Internal Management

Legislative and Executive Powers

2.67 Locations of responsibility within municipal government differ widely. There are as many structures of internal management as systems of local government. Two aspects of internal organization are important: the location of executive authority, and the role and direction of technical agencies.

2.68 The basic role of the legislative body in local government is reasonably constant. There is almost invariably a council with responsibility for passing by-laws and approving budgets, taxation, borrowing and major plans and policies. Such a council is normally elected but single party nominations may be politically imposed and the Government may appoint all or some of the members. A minority may be co-opted or nominated to represent special interests. The biggest variation is in size. English county councils average nearly one hundred members; in the United States fifteen members constitute a large council and thirty is the maximum.

2.69 However, councils rarely decide anything in a formal sense. More significant is the composition of the executive organization. Executive responsibility is taken to include the operation of services, preparation of the budget and authorization of expenditure within it, appointment and control of staff, preparation of plans and business for the council, and the determination of individual cases within its service and regulatory functions.

2.70 There are two distinct approaches to the location of executive responsibility. One vests the council with corporate responsibility for both legislation and execution; the executive organization works under delegated authority and subject to the council's oversight. The other stresses the separation of powers between legislature and executive; the executive works within a framework of laws and budgets framed by the council and is subject to its scrutiny, but is independent of its direct control.

Committee Systems

2.71 Four alternative foci of executive responsibility can be discerned: council committees, a "cabinet," a "strong" mayor and a "strong" manager.

2.72 The archetype committee system is that traditional to British local government (though increasingly modified during the last 15 years) in which executive responsibility is exercised by committees of the council, each supervising a vertical service department (e.g., education or highways) or a horizontal resource such as finance or staffing. Committees may not necessarily be executive in the formal sense of having delegated power to act; but even if they only submit recommendations for council ratification the initiative of

policy formulation and case decision rests with them. The committee system is found mainly in countries like Kenya where British influence has been strongest.

2.73 There are, of course, variations in practice. Diffusion of formal responsibility may be linked with strong individual political leadership, either formal or informal. Committee chairmen may play a ministerialist role in relation to the service for which their committees are responsible. Frequently a central policy, general purposes or finance committee exercises a degree of primacy and coordination.

2.74 The committee system involves all or most of the councillors in executive responsibility. It draws on their local knowledge extensively and can help to avoid insensitivity in individual decision making. It gives councillors an understanding of the complexity of public business and harnesses them as channels of communication with the public. Its merits are its dangers. Referring all cases to committees is a slow process, particularly in matters involving more than one department. Coordination is more difficult, not only procedurally but through the stimulus to departmental separatism. It can hinder and frustrate staff initiatives and responsibility, and subject to political discussion individual cases which should be decided professionally and judicially.

"Cabinet" Systems

2.75 "Cabinet" systems vest executive responsibility in a small group which channels all business to the council and exercises direct and coordinating control over the departments. Individual members of this group may oversee groups of departments but the "cabinet" has corporate responsibility. Examples are the executive committee in Swedish communes, the commission or board system in parts of the United States and Canada, or the College of Burgermaster and Aldermen in the Netherlands. The members of the "cabinet" may be elected by the council or the public at large. If appointed by the council they may be members already, or selected from people of administrative experience. There may be other committees, usually in a purely advisory capacity. Such committee's recommendations, however, only proceed to the council through the "cabinet," which is usually chaired by a member of the latter who has particular oversight of the function concerned. The "cabinet" may have a strong political leader with some overriding veto. Individual members usually undertake a "ministerial" responsibility for a group of council functions.

2.76 Turkey has a variant of the cabinet system with its municipal committee (Belediye Encumeni) which combines managers (deputy mayors or departmental heads) with selected members of the council under the chairmanship of the Mayor.

2.77 The "cabinet" system permits strong central management with its advantages of coordination and speed. The group has the benefits of corporate wisdom and experience, particularly if the members are appointed for professional or administrative capacity, which is more likely where an administrative rather than a purely political role is specifically accorded to them. The reconciliation of political and administrative interests is also facilitated by such membership. Such concentration of power also has its

dangers; it can overload the "cabinet," place a greater strain on its cohesion and enhance the feuds between its members, turn the other councillors into a second-class membership excluded from the reality of power and insight into council business. If there is no coordination at the officer level also, too much may be expected of the cohesion of the "cabinet," particularly if members become too identified with their own group of portfolios.

"Strong" Mayors

2.78 A "strong" mayor combines the roles of ceremonial and political leader and chief executive of the local authority, framing and executing its budgets, preparing council business, appointing heads of department and controlling the staff. He or she may also preside over council meetings, though practice varies. The system is found in many of the larger American cities, the French communes, and in municipalities in many Middle and Near Eastern countries such as Iran and Turkey. Though not traditional to South Asia, it has been adopted in Bangladesh, Pakistan, Sri Lanka, Nepal and West Bengal. A "strong" mayor may be directly elected as in Brazilian, Philippine or Turkish cities, or appointed by the council as in France. The "strong" mayor usually has the power to veto council decisions, but can be overridden by a large majority.

2.79 The system clearly permits a dynamic approach with scope for rapid, cohesive action. The Mayor provides a point at which political and administrative tensions can be resolved, particularly if he or she is chosen for a combination of political acceptability and administrative experience. It is notable that the system is preferred in large American cities with heterogeneous ethnic and class populations where any division of power could be exploited by factionalism. The greatest danger is in the demand made upon a single personality: the difficulty of finding a person combining sufficient of both executive and political skills, and keeping sensitivities in balance--the burden of work and coordination on one person. Direct election is an advantage in giving the Mayor enough political weight and a clear mandate, but it also involves the risks of clashes with the council. The system capitalizes on the Mayor's abilities and gives them maximum scope; it also magnifies his or her weaknesses.

City Managers

2.80 Finally, executive responsibility may be vested in the professional administrator as with the county managers in Eire, the municipal commissioners in Indian city corporations (except in West Bengal), the Korean mayors or the Malaysian district officers. Again, the United States provides the model with the 2,000 local authorities who employ city managers. These prepare all business for the council and advise it, submit and administer the budget, appoint and supervise heads of departments. The Manager is leader of a team of departmental heads, but its sole channel to the Council.

2.81 The basis of appointment varies. City managers in America and Canada are appointed by councils to hold office at their pleasure. The Irish manager is appointed by the Local Appointments Commission and the Indian Municipal Commissioner seconded by the State Government from the Indian or State Administrative Service. Even where councils do not appoint the manager, they

usually have the power to vote his removal from office, though this may require ministerial approval. The degree of a manager's executive power varies: Indian, Irish and German chief executives do not appoint senior officers, and the Indian municipal commissioners have to work with executive committees.

2.82 The Indonesian Mayor (Walikota) or Regent (Bupati) lies somewhere between the mayor and manager models. He is appointed by the Minister of Home Affairs from a panel of names approved by the council and undoubtedly combines political and administrative leadership; however, most are recruited from the ranks of the armed forces or the civil service.

2.83 The manager system provides integrated and professional management and usually a relative freedom from corruption. It can, however, deprive councils of experience in making the hard operational choices and make the local authority politically insensitive. As with the "strong" mayor system, a heavy strain of work, coordination and political/administrative fusion falls on one person. Relations between the manager and the council can be strained since it is difficult to maintain a clear boundary between policy making and administration. The public will expect councillors to exercise influence on decisions which are properly within the manager's sphere; but they will intervene on matters of detail without responsibility for the overall consequences.

Comparisons

2.84 This analysis clearly rules out any definitive judgement on the most "effective" structure. The "strong" mayor model is in the ascendancy; in much of South Asia, for example, mayors and chairmen have assumed executive powers formerly shared between committees and appointed commissioners. In conditions of rapid urban growth political stature and ability to manage conflict are seen as important--conflict between social and ethnic groups increasingly diversified by immigration, between the municipality and its labor force, between the scale of public demand and of available resources. It is hoped that electoral accountability will stimulate a pro-active leadership in overcoming bureaucratic inertia and professional conservatism. But the central government may impose centrally appointed "managers" for other reasons--a paternal concern for integrity or fear of political rivalry, for example; central government interests are particularly strong in the case of countries like China and Indonesia where the Chief Executive of the local authority is also the local representative of the state and coordinator of all public services.

Technical Direction

2.85 Another major element in internal organization is the role and leadership of technical agencies. In the anglophone tradition, municipalities have their own technical departments, executing pure municipal functions; this is largely the case in North America, Latin America, South Asia and Anglophone Africa. Direction may vest in the professional officer answerable directly to the council or its chief executive--a city engineer or city treasurer, for example; alternatively, departments and other agencies may be supervised by assistants to the chief executive--deputy mayors, deputy municipal commissioners, etc., with professional heads such as chief engineers or chief

accountants in subordinate roles, (although deputy mayors may well be selected from people with relevant technical qualifications or administrative experience).

2.86 In China, Francophone Africa, or South East Asia, by contrast, it is more usual to find local technical agencies which are part of the vertical organizations of individual central government ministries, but undertaking local government tasks as well and subject to some degree of coordination by the local chief executive.

Management Style

2.87 Debate over the optimal design of organizations has known several changes of emphasis. The early Weberian stress on clear lines of command and functional specification gave way to concerns for personal motivation and the role of informal groups. Post-war attention has focussed on the relationship between organization and task, and the needs for variation in management style according to the degree of interdependence of the functional divisions and the uniform or flexible design required of the product. Recent interest has focussed on "organizational culture" and on the "loose/tight" model of management associated by Peters and Waterman with achieving "excellence." This emphasizes a combination of tight control by central management over strategic direction, with substantial decentralization of responsibility for day to day operations and resource use.

2.88 The majority of organizational theory has developed in an industrial context. Recent developments have been particularly associated with the evolution of computer-operated machine tools capable of flexible adaptation to variations in product design, making such variations and short production runs economic in ways impossible in the first half of the century. This in turn means that marketing, design, production and costing skills have to be integrated repeatedly in respect of small "runs," so that coordination of specialisms can no longer be restricted to top central management. Shop floor discretion is essential, but has to be guided by an overall sense of what the company "wants," both in terms of profit margins and of overall product quality and evolution.

2.89 Municipal management can often be characterized as "loose/tight," but in the opposite sense to that associated with "excellence." It is extremely tight in control of detailed execution, but loose in terms of strategic priority and direction. The municipal committee in Turkey, for example, meets every week and has to approve every item of expenditure over TL 25,000 (US\$13) including purchasing new tires for a refuse lorry or mandatory retirement benefits for a messenger.

2.90 Yet in conditions of population growth and economic change, the requirements of effective city management have much in common with those of modern industry. Demands are great, resources heavily limited. There has to be a sense of strategic priority, both financially and spatially. What types of investment and maintenance improvements are most important? Which areas of potential physical development or redevelopment can be most cheaply or rapidly serviced with infrastructure? Equity requires the application of standards,

some uniformity in the frequency of refuse collections, street lighting, water pressures, text book supplies, response times by fire engines or ambulances. Efficiency also calls for standards--some uniformity in the volume of refuse to be collected by each truck, or in the number of premises to be supervised by each health inspector.

2.91 But city management also requires a great deal of interdepartmental and interdisciplinary cooperation and a flexible adaptation to neighborhood conditions. Development or redevelopment of particular areas may well involve planners, architects, accountants, surveyors, valuers and various kinds of engineer--civil, water, sanitation, electrical. Much of it is not "green field" development, but improvement of areas with many existing structures and residents. Thus, designs have to be adapted continually to secure local consent and participation, and minimize destruction and compensation. Even the personal social services often have to adapt to major ethnic and cultural differences. Accountability requires ready opportunity for local citizens to call attention to their needs and complaints, to obtain information and to have applications for licences, etc., processed speedily. So patterns of decentralization are needed which encourage interdisciplinary working, speed of operation, flexible design and quick response to public enquiry and application at field level.

Planning and Programming

2.92 Effectiveness in these terms has several requirements. First is a central capacity to make strategic choices and embody them in both financial and spatial investment plans. This requires in turn both skill and authority--skill in analyzing options, forecasting needs, resources, etc., and authority to legitimate choices.

2.93 Various organizational locations have been tried for a central planning and programming capacity. In Indonesia a Planning Board has been established in each local authority as a separate bureau responsible directly to the Mayor or Regent. In the Cukurova municipalities in Turkey, a program and budgeting "cell" has been established under the Deputy Mayor responsible for finance. American mayors often have a budget office under their immediate control, separate from routine financial management, with a major role in program formulation. Establishment of corporate planning units under the Chief Executive has been widespread in British local government over the last decade. These cells, particularly in the Americas, often draw heavily on consultant services from business and academic circles.

2.94 Formal legitimation lies in the adoption of budgets and plans by councils, often after prior discussion by a policy or finance committee. But a less formal legitimation by service departments and agencies is also necessary to ensure commitment to implementation. British local authorities developed management teams of chief officers to parallel corporate planning units. Some Cukurova municipalities have established a program and budgeting group consisting of deputy mayors and general managers of enterprises to discuss and approve the recommendations of the "cells."

Delegation

2.95 The opposite side of the coin is the need for operational decentralization within municipalities. This proves most difficult in systems where executive responsibility is legally concentrated in the chief executive, whether an elected Mayor or an appointed Manager. It is not uncommon to find a Mayor or City Manager having to authorize every item of expenditure however small, and every appointment, even of a daily laborer. Meetings are continually interrupted by staff bearing documents for signature to which only the barest scrutiny can be given.

2.96 This concentration of authority is counter-productive. The chief executive cannot scrutinize half the transactions he or she authorizes. Their wisdom and propriety depend upon the staff who submit them for approval; their incentive to act responsibly is undermined by their lack of accountability for what they recommend. In a large municipality centralized authority can also impose considerable delay and wastage of resources--drivers and lorries stand idle while waiting for purchase of spare parts to be approved.

2.97 The clearest advantages of decentralization lie in budgetary control, contrary to normal perception. The person best able to plan efficient expenditure of a budget item is the functional manager. If he is personally accountable for keeping within the approved budget, he is under compunction to plan commitments over a full year; if he has some powers of virement, (i.e., transfer between budget items) he has also both the knowledge and the incentive to find savings to offset any unforeseen need to exceed a particular budget provision. If he is not responsible for budgetary control, it is rational for him to keep committing expenditure until told to stop, and then to cite further "essential" needs which cannot be denied without unpopular disruptions of service. If he has no power of virement there is no incentive to offer savings when unexpected needs arise--extra water pumping in a drought, repairs to electricity cables after a storm.

2.98 Effective delegation is the key to good financial control. Bombay Municipal Corporation has coded its expenditure budget by activity and responsibility. The responsibility coding runs to four digits so that allocations are disaggregated to the fourth level of management. An Assistant Engineer responsible for water distribution in one area of the city has control of a precise budget. A computerized accounting system identifies spending under each responsibility and activity code and pinpoints any variation from approved levels at regular intervals.

Geographical Decentralization

2.99 In very large municipalities decentralization may have to be geographical as well as functional. There are at least four reasons. First, central management, even within individual functional departments, is too far removed from actual operations. Operating managers are effectively at branch level, not city hall, and need authority to commit and apply resources. Second, members of the public need access to information and help from those directly responsible for service to them and their neighborhood. Third, much urban development (and redevelopment) needs interdepartmental and interdisciplinary

teamwork together with close knowledge of local conditions and often close relations with local residents--all difficult to achieve if teams do not operate on an area basis or their members lack discretion to design their operations and commit resources according to mutual agreement.

2.100 North America and Western Europe offer the most established examples of geographical decentralization within local authorities--New York's boroughs or the Parisian arrondissements for example. But there are Third World examples as well. Bombay and Delhi are divided into zones within which most technical departments have sub-headquarters coordinated by deputy or assistant municipal commissioners. Jakarta has four districts under "mayors" who are subordinates of the city Governor.

2.101 Geographical decentralization may be purely administrative, or it may take on a political dimension. Bombay and Delhi zones have committees made up of the municipal councillors representing wards within the zone plus the area departmental officers. Part of the capital budget is earmarked for minor works proposed by these committees. In some cases it is the membership of a lower-tier municipal body, the Turkish district municipalities or Philippine barrios, for example, which is able to represent local opinion at a "zonal" level. Such mechanism may well be essential to maintain real accountability in large city government. The channel of communication between an aggrieved member of the public, his or her elected representative and the relevant service manager, may be too long to be effective if it cannot by-pass city hall, i.e., if the councillor has access only to city level officials, not to the operational manager in the neighborhood. It is said that formation of borough committees in Calcutta Municipal Corporation, bringing together councillors and officials at area level, has done much to improve service efficiency and responsiveness.

Delegation to Municipal Enterprises

2.102 Functional and geographical decentralization has been discussed. Two other forms of delegation are widely practiced: (i) to enterprises, and (ii) to extra municipal bodies, commercial or private.

2.103 "Enterprises" describe bodies with a separate legal identity, budget, accounts and staffing, and a quasi commercial character, but municipally owned and subject to general municipal oversight. Ownership can be mixed, e.g., where central government has a share of the equity or where some degree of joint venture with private capital is involved.

2.104 Delegating tasks to municipal enterprises has a number of objectives. It helps to isolate the full costs of services such as water supplies, electricity distribution or public transport, where full cost recovery from consumers or clear identification of subsidy is thought desirable. It allows more commercial accounting practices where justified by the character of the operation. It may free the enterprise from some time-consuming municipal or central government controls where market flexibility and speed of response are important. A separate enterprise may also be able to operate across municipal boundaries, sometimes under joint ownership, often a major advantage in providing a conurbation-wide service or achieving efficiencies of scale.

2.105 These are tangible advantages in operating services such as public transport or water supply, or overtly profit-making activities such as markets and slaughter houses. There are, of course, dangers. Freedom from controls means exposure to the dangers of abuse which the controls were designed to overcome. Corruption, patronage and nepotism in the distribution of jobs, contracts, etc., may be easier and less exposed in an enterprise than in the parent municipality. It is normal for the tariffs charged by enterprises to require municipal approval, and they are therefore subject to as much sensitivity as those of the parent body.

2.106 A distinct advantage of some municipal enterprises is their ability to offer more competitive salaries to professionals than those offered by mainstream central or local government service. This, combined with greater operational freedom, may well improve their attractiveness to well qualified personnel. Indeed, Istanbul Metropolitan Municipality has used membership of the managing boards of enterprises to make the emoluments of its own senior officials more attractive. Enterprises may also incorporate productivity incentives in their manual pay structures more easily. Bombay Electricity Supply and Transport, for example, pays its mechanical workshop staff bonuses if they keep at least 93 percent of buses on the road every day.

2.107 Three conditions may help to secure the effectiveness of municipal enterprises:

- (a) Clear specification of service targets and standards.
- (b) Clear financial relationships between the enterprises and their parent municipalities, the absence of concealed subsidies in either direction (e.g., free supply of supervisory staff, equipment or supplies to the enterprise, free supply of services to the municipality), and clear financial targets.
- (c) The rights of the parent Council to scrutinize the enterprise's operations.

Delegation to Non-Municipal Bodies

2.108 Delegation of service delivery to extra-municipal bodies is a subject of much current experiment and discussion. It is often described as privatization, though this is usually a misnomer. Privatization refers strictly to circumstances where the public sector surrenders responsibility to private enterprise. Here we are concerned with "contracting out," in which the public sector uses private or communal agencies to perform public functions but retains responsibility for financing and regulation.

2.109 "Contracting out" has been mentioned earlier as a possible solution to the problems of very small municipalities. Recently it has often been seen also as a means to improve efficiency even in large authorities, to introduce competition and counter the low productivity of direct labor. New legislation in Britain will make it compulsory for local authorities to put routine tasks such as refuse collection, school and office cleaning or parks maintenance out to tender, with existing municipal labor forces able to compete. Refuse

collection is also contracted out by a third of the United States local authorities and some Turkish municipalities including Adana. Several Malaysian towns also contract out refuse collection along with maintenance of parks and drain clearance.

2.110 Contracting out has a number of real or potential advantages. Contracting companies may offer economies of scale, greater discipline in maintaining labor productivity, sharing of risk in the trial of new technologies, an infusion of capital, and relief to city officials from much managerial preoccupation. A United States survey of contracting out found that in seven out of eight services studied, contracting was between 37-90 percent cheaper than in-house provision, with no discernable differences in quality. There are dangers, however, that the advantages may be lost by "ringing," poor supervision and nepotism, so that contractors cease to be cheaper or simply provide a poorer service. The price and efficiency gains were lost in Dakar, Senegal, when municipalities were forced to contract out refuse collection to a monopoly firm with ministerial connections. Much depends on the ability of the local authority to negotiate and supervise contracts effectively. Clear specifications, performance standards, rewards and penalties, dispute procedures and termination provisions need to be incorporated in contracts and enforced strictly.

2.111 More widespread and of longer standing is delegation of social service functions to voluntary bodies or forms of cooperation with them. Religious bodies have been widely responsible for managing primary education with public subsidy and supervision in parts of Africa and Asia. Municipal assistance to the mentally and physically handicapped or the destitute, is often given in partnership with non-governmental organizations, voluntary, religious or communal. In Western Europe, social housing has often been managed by cooperatives with municipal subsidy.

2.112 These forms of partnership again have much advantage. They harness resources of communal energy, skill and compassion; voluntary work reduces costs both of labor and supervision. There is less pressure for bureaucratic standardization of services, more opportunity for experiment and often for far more hard-nosed identification of those in genuine need of help.

2.113 Again, there are dangers. It is not as easy to supervise and regulate the work of voluntary bodies financed by municipal funds, as in the case of contracting out to private enterprise. Competitive tendering can rarely be used as a means of holding such bodies to target standards of performance or of periodic review. Any reduction of subsidy to, or termination of agreements with voluntary agencies is politically sensitive. Many of the advantages of cooperation with voluntary agencies in small-scale provision of services can be greatly diluted if expanded. Once such organizations take on large scale functions, they become more dependent on full-time staff and liable to the same risks of bureaucratic remoteness, insensitivity and preoccupation as the parent municipality.

Management Process: Budgeting and Financial Control

2.114 Decentralization, functional or geographical, does depend however on the quality of a municipality's routine processes. Delegating expenditure control to departments or areas may be an effective device for keeping within the budget; but it assumes that the budget is itself realistic, i.e., that the estimated revenue will be collected to balance the expenditure which departments are allowed to incur.

2.115 In fact, municipal budgeting is often deliberately unrealistic. Revenue forecasts are inflated so that councils do not have to make hard choices over expenditure. Everyone's pet scheme can be included. But actual commitment is based from day to day on cash in the bank, not provision in the budget. Projects are not rejected in the budgetary process, merely postponed by routine controls. One must not underrate the political difficulty of hard-nosed budgeting when there are acute disparities between demands and resources. But its absence is costly in managerial terms. Pressure leads to committing rather more than the cash in the bank; and since the cash balance usually ignores considerable liabilities to creditors, the result is an ever growing deficit which erodes public and staff confidence, and the ability to maintain existing services, let alone develop more. It is significant that the Municipal Management Project in Sri Lanka has laid heavy emphasis on cautious revenue estimation as the beginning of budgetary improvement.

2.116 Geographical disaggregation of budget management normally requires some service standards and unit costs. These are important for both efficiency and equity. In Britain the professional body of local government finance managers, CIPFA, publishes comparative annual statistics of unit costs of the various local authority services, and these have been used heavily by the Audit Commission in identifying and disseminating "good practice." The Indian Town and Country Planning Organization carried out a comparative survey of service costs in municipalities in 1987, and the Planning Commission had previously estimated per capita investment costs for each service and size of city.

2.117 Decentralized budget management also requires regular and up-to-date accounting so that line managers can compare their estimates of committed and uncommitted budget provision with the central financial record. This is particularly important where re-charging systems operate for overheads and interdepartmental services (e.g., vehicle repairs), so that budget items can be debited without the spending department's direct authorization. Municipal accounting systems are often extremely rudimentary. Improvement does, however, require a sense of priority and feasibility; attempts at reform have often been based on standard consultants' manuals with unnecessarily sophisticated program budgets and accounting procedures. A few examples are offered.

2.118 Firstly municipalities do need (and often lack) a budget breakdown which divides the costs of inputs (staff, travel, supply, etc.) according to broad functions and, if possible, individual tasks (e.g., public health, subdivided into refuse collection, food inspection, etc.). They do not need complex program structures which group expenditure by broad objectives, crossing departmental lines; the benefits of such structures are dubious, the costs of

disagreement over definitions of objectives and confusion over the differences between budgeting and organizational divisions, considerable.

2.119 Second, a ledger system showing income and expenditure against each budget item and advance or deposit account is essential, together with regular reconciliation with cash and bank balances. Balance sheets need to distinguish between permanent revenue and expenditure on the one hand, and the temporary "below-the-line" transactions (e.g., recoverable advances to employees or pension fund contributions awaiting investment), so that the real net worth of the municipality, its degree of basic solvency, can be identified. This may need qualification with a statement of unpaid bills. But installing a full accrual system, whereby revenue is credited the moment it becomes due (i.e., before collection) and expenditure is debited as soon as it is committed (i.e., before payment of invoices) involves such complexity that few if any municipalities could operate it with sufficient reliability or punctuality to be of practical use; it can also produce a misleading picture, particularly if much revenue is credited to accounts ahead of its collection.

2.120 These budgets and accounts need to distinguish between capital and operating expenditure. Moreover, the source of finance for each capital project item needs to be clearly specified so that it is not committed before the funding is assured. It is impossible to identify the adequacy of operating expenditure or the financing of capital expenditure unless the two budgets are separated; moreover there has to be opportunity for capital provision to span two or more budget years. But full capital accounting systems are of dubious value. These credit the value of land, buildings and equipment to the municipality's balances, requiring an annual revaluation in which those balances are credited with any appreciation and debited with depreciation. The process often proves too complex for the capacities of the accounting staff, resulting in delays and inaccuracies in the production of accounts. Moreover the extra information provided by capital accounting systems is of questionable use. To include the value of assets which cannot be realized can create a false sense of viability; a municipality can rarely sell its schools to pay its teachers. (It may be necessary to assess the value of a particular set of fixed assets, e.g., water supply equipment, because it is used for a specific calculation such as percentage maintenance costs, rates of return or insurance. This, however, can be undertaken as a discrete exercise without having to value everything and delay producing the municipal balance sheet).

2.121 In short, the most important consideration in designing accounting systems is the capacity of the staff to produce accounts promptly, and of managers to interpret them. Systems are of no practical value if they cannot be kept up-to-date or readily understood.

Management Process: Dealings with the Public

2.122 "Closeness to people" and "local accountability" are standard justifications for systems of local government. In practice municipalities can often be aloof and high handed in their treatment of the public.

2.123 Members of the general public relate to municipalities in at least four capacities--as electors, as taxpayers, as consumers of their services and

as subjects of their regulatory powers. In all four they are entitled to courteous, even-handed and expeditious access and service. These depend both on specific procedures and on general attitudes. Attitudes are often harder to change than processes, but the two go hand in hand. Changes in procedure can often make it easier for staff to be helpful, and can demonstrate a municipal commitment to good public relations--promote a public service, "client-oriented" culture.

2.124 It would be impossible here to catalogue the types of procedural improvement needed; many of them are specific to particular cities and functions. One can only illustrate them. The most important relate to the imposition of taxes and charges, and the exercise of licensing and other regulatory powers. These are crucial because they comprise the bulk of the individual transactions between the public and municipal staff. They also affect the image of the municipality because they reflect it in its more negative light--as an organization which imposes duties and constraints upon the public, rather than as a source of benefit. The notion of public service is compromised when an applicant for a licence has to queue to buy an application form, queue to submit it, queue to pay the fee, and queue again days later to get the approved document. This is no parody of many municipal processes designed to meet the convenience of the bureaucracy rather than the public.

2.125 Many of the innovations in public relations relate to ease of accesses. Municipalities as far apart as Birmingham and Curitiba have developed "one-stop" neighborhood offices where residents can make enquiries, applications, payments, etc., in connection with any municipal function. Indonesian provincial authorities adopted the same approach with their joint offices where vehicle owners could pay their local motor vehicle tax, police registration fees and insurance premia together. Ability to pay fees and taxes through banks and post offices as well as at City Hall has a similar purpose.

2.126 Another related aspect is clear information on municipal requirements. Leaflets, posters, newspaper and local radio and TV advertisements can be used to explain to the public what they have to do to pay a property tax, obtain a water connection, register as electors or get a building permit. Making forms comprehensible increases the likelihood that they will be completed correctly and acceptable without reference back to the applicant. Curitiba has computerized its zoning and building regulations. A plot owner can secure a print-out of all the restrictions and requirements to which a subdivision or building application will be subject; this not only reduces delay, but makes it difficult for municipal officials to interpret rules arbitrarily or corruptly.

2.127 Processing of complaints is a third area. Curitiba again has a computerized system by which all public complaints by telephone, personal call or correspondence are logged and referred, and action monitored. ISKI, the Istanbul Water and Sewerage Enterprise, has a row of desks in its headquarters lobby purely for dealing with complaints, mostly about disputed billing. Such procedures do not ensure that complaints will be dealt with, but they do publicly emphasize the right of the "customer" to complain and to an answer. They send an important signal to public and officials alike.

D. Staffing

Systems of Employment

2.128 There are two structural dimensions to the staffing of local authorities. The first is the basis of employment, and the second the location of responsibility for appointment, discipline, promotion and termination of service.

2.129 The basis of employment is normally categorized under three systems:

- (a) A "separate system" whereby staff are employed by individual municipalities and are not transferable except by personal application and appointment. This is the case in Great Britain, Turkey, the United States and much of Latin America.
- (b) A "unified service" whereby the staff of local governments are employed on a collective basis. They are subject to transfer between individual authorities, and eligible for promotion to a vacancy in any municipality's establishment for which they are qualified. Unified Local Government Services in Sri Lanka and several Indian states are examples.
- (c) An "integrated service" in which local authorities are staffed by members of the national or state civil service.

2.130 These systems are not mutually exclusive. Staff above a certain level of salary or rank may be employed on a unified or integrated basis, and below that level by each municipality separately. Provision of staff from an integrated or unified service may be limited to one or more professional/technical cadres (e.g., accountants or engineers). A large Indian Municipal Corporation, for example, may well have a Municipal Commissioner seconded from the Indian Administrative Service, senior and middle level officers from state local government services and junior staff whom it appoints and employs directly.

2.131 Power to appoint, promote, discipline and retire staff may be vested in:

- (a) each municipality itself;
- (b) an independent Service Commission; and
- (c) an appropriate ministry (e.g., the Interior, Local Government or Public Service).

2.132 Alternatively, the power may lie with each municipality, but certain decisions such as the appointments of key officials or dismissals, may be subject to approval by a Commission or Minister. Individual staff may have rights of appeal to a Commission or Minister against the decisions of their employing authority. There is no clear cut correlation between the bases of employment and powers of appointment. Officials in a separate system may be

appointed by central commissions. Individual municipalities may have a major voice in posting to them within an integrated service.

2.133 Different systems and combinations of systems reflect basic problems which surround the staffing of local authorities. It is not so much that each problem is common to all systems, but each system represents an attempt to solve these general problems. No system has been found to solve all equally; rather that they all tend to meet one need at the expense of aggravating another. The variations both in the basis of employment and the method of appointment reflect the extent to which the relative importance of the problems differs between countries.

2.134 The first general problem is that of merit: the need to ensure that people of the right calibre and qualification are attracted to local government service and that appointments are made on grounds of merit. In terms of the recruitment of permanent staff, wide career prospects and security are critical. People of ability need to be convinced of their chances of promotion (limited in a small authority), and of immunity from parochial or political prejudice. An integrated service perhaps offers the best career prospects since the field of potential promotion encompasses both the national and local establishments. On the other hand, there may be a danger of national ministries and departments creaming off the more able staff and leaving the inferior material for posting to local authorities. A unified service may be better from this angle. A separate system carries obvious dangers of nepotism and parochialism with the larger and richer municipalities able to wean able and ambitious staff from the smaller and poorer ones.

2.135 A second problem is mobility. Transfer of staff from one municipality to another widens career prospects, counters staleness and spreads experience, disseminating ideas and innovations. In Great Britain, the United States and much of Western Europe, there is much mobility within local government service although within "separate" systems; it is customary for posts to be advertised and for outsiders to apply for them successfully in open competition with in-house candidates. But there are many countries where parochial attitudes and nepotism make such mobility impossible unless staff are posted by an integrated or unified service.

2.136 A third problem is that of loyalty. An integrated or unified service isolates staff from local pressures. This may be conducive to a sense of loyalty to professional and ethical standards. But it can equally make staff insensitive to local opinion and individual needs and circumstances, and disloyal to the municipality they are serving. There is also a danger in countries with great regional rivalries or disparities, that officials posted to an area will lack sympathy for the local community and display arrogance and indifference.

2.137 Fourthly, one must consider discipline and control. Control is more remote in the case of an integrated and unified service, less conditioned by local politics and personalities. In theory, this guarantees impartiality. This is not necessarily an advantage in practice; one local individual with strong influence on the center may sway the controlling Commission or Ministry by his or her apparent familiarity with an officer's performance in a way that

would not be possible with a local committee, all of whose members knew the facts. Remote control may favor indolence and dishonesty. Complex procedures and a judicial approach may be good for staff security, but they favor those who are guilty of dereliction of duty.

2.138 The solutions to these problems are clearly in tension. A unified service may attract personnel of higher caliber, but weaken their loyalty and sympathy towards the area and community. Control by a central Service Commission may protect a conscientious officer from political victimization, but lessen the discipline over one of lower motivation.

2.139 Variations in system, therefore, reflect this tension and also the fact that the individual problems vary in intensity at different places and stages of development. The dangers of nepotism and parochialism and an acute shortage of manpower may make a unified or integrated service imperative. Large municipalities will probably be able to get able staff if their salaries are reasonably competitive. Even with uncompetitive emoluments, able people may be attracted to service in large cities where the work is professionally challenging and prestigious; a confucian sense of public service and its satisfactions still operates in many countries. But it is the smaller municipalities which will find the more acute difficulties.

2.140 But as an economy and the base of educated manpower develop, a separate system may be preferable, since it will encourage a sense of loyalty to the locality (whose leaders will be on a par educationally with professional officers), while public opinion and the strength of professional associations will lessen the dangers of nepotism and indiscipline. Regional rivalries and parochialism should be less of a barrier to mobility and cooperation. As disparities in standards of living subside, able and ambitious staff may be more willing to take positions of responsibility in smaller municipalities as rungs on the promotional ladder.

Short-Term Appointments

2.141 The discussion so far has related mainly to the permanent staff. In many countries municipalities also employ staff on a short-term contract basis, not only in the junior manual grades, but in managerial and professional positions. These may well be political appointees introduced by a mayor or majority party to assist in central policy making, or to oversee the technical departments. In "strong mayor" systems, such as in France, Turkey or the United States, it is common to have deputy/assistant mayors who supervise a group of departments; although personal supporters of the Mayor, they may well be qualified professionals in the areas they are supervising, such as accountants, planners or engineers. Political appointees may also constitute a bureau of planners or policy and budget analysts, providing immediate support to the Mayor; American style budget directorates frequently employ contract staff serving a single mayoral term of office.

2.142 Short term contracts may also be a means of employing qualified professionals who would not be attracted by career terms of service. Many senior managers and professionals in Turkish municipalities are employed as daily "workers," simply because they can be offered rates of pay, bonuses,

overtime and other allowances which considerably exceed the salaries for which they would be eligible as permanent staff. The top ranks in most Turkish municipalities consist of a mixture of "memurs" (permanent local civil servants) and "workers." Moreover, even the memurs can be moved between different departments and posts within the municipality without impact on their salaries.

2.143 The merits of political and contract appointments are debatable. On the one hand, they are a means of supplementing professional skills, of attracting staff who are willing for various reasons to perform a period of public service in the locality without being committed to a permanent municipal career. They bring in fresh insights and momentum. They can provide the mayor or chief executive with a core of managers or policy advisors whom he or she trusts in terms of commitment, loyalty and shared values.

2.144 The problems lie in the risk of division between permanent and contract staff. If these divisions are horizontal, they can be characterized by mutual suspicion, contempt and lack of cooperation and understanding. If they are vertical divisions, a major gap can grow between policy and implementation. Short-term managers and professionals produce plans and policies which founder on the indifference, demotivation and conservatism of the lower full-time ranks who are required to execute them.

2.145 No perfect solution is available to these issues. Some features of the personnel system can help, however. These relate chiefly to mobility--sectoral, geographical and vertical. It does help if arrangements such as transferability of pensions encourage staff to move between municipalities, between sections of the public service--central government, local government, parastatals, educational and research institutions--or even between public and private sectors as part of a career. It helps also if promotion and training structures allow staff a potential career path to senior appointments regardless of their initial qualifications; staff who are permanently consigned to subordinate positions simply because they are non-graduates, for example, can present a resentful and conservative obstacle to change. The division between short-term managerial/professional and long-term subordinate/sub-professional ranks can be ameliorated if there is some mobility in both. Similarly, the freedom of Turkish or Indonesian mayors to move staff between posts without detriment to salaries or security is particularly useful; given the extreme difficulty in most systems of firing permanent staff for anything short of a criminal conviction, it is better to have senior staff on "elephants graveyard" assignments than failing to deliver or cooperate in key managerial positions.

Professional Organization

2.146 Much related is the question of professionalization. This describes a process in which people who practice a particular skill and perform a group of related tasks, group themselves in a self-regulating Association or Society. Admission is through acquiring qualifications recognized and monitored by the Association, which may include examinations it administers. The Association defines performance standards for its membership and enforces them through disciplinary procedures, including the ultimate sanction of expulsion and withdrawal of professional recognition. It plays a pro-active role in advancing the skills of its profession through developing the curriculum for its

membership qualifications, through sponsoring further mid-career education, and through publication of journals and other literature. The Association may also play a key role in negotiating with the Government over policy issues in its area of expertise.

2.147 All these characteristics can be of great service to municipal staffing. Professionalization can impose standards of proven competence on middle and senior level staff, based on a combination of academic and practical training, much of it in-service and available to junior entrants. It can help defend the standards and interests of the profession against nepotism or political victimization. It can disseminate knowledge of new developments and act as a powerful voice for local government practitioners in national debates on legislation and policies in their subject areas.

2.148 Inevitably there are dangers in professionalism also. It can be based on a very blinkered view of the municipality's task and a conservative and inefficient pursuit of unrealistic standards. There is a partial reaction against professionalism in some western countries like Britain where it has been strongest, e.g., by occasional appointments of departmental directors from outside the profession. Nevertheless, the potential gains to municipal capacity from a system of organized and self-regulated professions far outweigh these risks.

Control of Establishments and Conditions of Service

2.149 A further issue is the control of establishments and terms of employment. In the United States each local authority decides on its own staffing levels and negotiates employment terms in annual "contracts" with unions and professional associations. In Britain local governments have similar freedom but voluntarily join in collective bargaining with the unions through their national associations. In many third world countries by contrast both establishments and service conditions are rigidly controlled by central government. In Indonesia, for example, local government salaries and related terms of service are identical with those of the civil service; staffing levels follow uniform structures stipulated by the central Ministry of Administrative Reform. Turkish municipal establishments have to be approved by complex processes involving the Ministry of Interior, State Personnel Organization and the Council of Ministers.

2.150 The fear of nepotism pervades the legal framework of local government in many countries. To comply with legal requirements, the Istanbul Metropolitan Municipality budget includes 113 pages describing every single post and postholder in its service, (while allocating US\$100 million for construction and repair of roads on one line with no breakdown). The political exposure of local government discussed earlier undoubtedly puts it under great pressure to create "jobs for the boys." Yet rigid control has substantial costs. It creates inflexible structures which are difficult to vary as urban growth creates more needs for staff in some directions while technology lessens others. Some of the Indonesian model structures prescribe considerable over-manning of the central administration of local authorities, particularly the smaller ones. Uniformity makes it difficult for municipal terms of service to reflect local variations in labor markets and living costs. Above all, central controls can be

counterproductive; they can breed a general irresponsibility in which neither central nor local government faces up to hard choices over manning or pay levels. Local government avoids them because it can always blame central government which makes the rules; central government is not faced with the practical consequences of the rules it makes.

Training

2.151 Contrasts are often drawn between the importance given to training in successful private enterprises and its comparative neglect in the public service. Training has many roles. Some are very specific, such as imparting basic skills, familiarizing councillors and staff with tasks and procedures, introducing new technology. Others are broader--imbuing councillors and staff with greater understanding of the municipality's environment and policy objectives, mediating change, preparing professionals for managerial responsibility, promoting support by central government officials. All these purposes have their place in a training system. All, for example, have been components of the substantial training focus in the Sri Lanka Municipal Management Project. Such focus is important in attempts to change the culture of municipal government. It demonstrates, for example, a belief that local government and local government staff count. When municipal personnel find themselves on similar skill programs, the same management development courses, or in the same overseas scholarship streams as fellow professionals in other sectors, much is done to restore the self-esteem and self-confidence of local government--a crucial step in developing a pro-active, managerial culture.

2.152 The location of responsibility for municipal training is an issue which many countries have found difficult to resolve satisfactorily. It needs a combination of practical experience, capacity for analysis and critical thought, and communication skill which is not easy to find either in individuals or organizations. Training institutions run directly by government or local government can lack ability to challenge existing practices and inspire a climate of change; universities are more attuned to this role, but their staff may lack ability to relate to practitioners by thinking through the practical implications of change. Some institutions like Brazil's IBAM or the author's own Institute of Local Government Studies, have gone out of their way to attract a combination of practically-minded academics and intellectually-minded practitioners.

2.153 But however good the training system available to local government, its success will depend on the commitment to staff development within the municipalities. Two elements of the Sri Lanka training program have been interesting in this respect. The first was a decision not to create a special training institution for local government, but to form a small team in the Ministry of Local Government with the duty to commission, help design and monitor "tailor-made" programs for municipal staff from existing institutions. The other was a series of incentives to municipalities to appoint training officers and develop comprehensive training programs, much of them "in-house."

E. Financing

General Principles

2.154 Financial strength is clearly crucial to municipal effectiveness. The managerial, pro-active municipality envisaged earlier must be able to respond to needs by deploying resources under its own control, rather than having to beg and wheedle them from other agencies.

2.155 Two sets of principles conventionally guide discussion of public finance. The first is that the burden of paying for services should fall on those who benefit from them, and in proportion to their benefit. Services should therefore be financed by user charges, where the individual beneficiaries can be isolated and their consumption measured. Subsidization from general taxation should only occur where there is some degree of general benefit, or where consumers cannot afford the full cost of a service regarded as essential to human welfare. General taxes should support the cost of those services which benefit the general public indistinguishably.

2.156 Second, it is normal to evaluate forms of taxation according to five criteria:

- (a) Equity: the fairness with which the incidence of taxation is distributed between people in different income groups (vertical equity), with different sources of income (horizontal equity) or living in different areas (geographical equity).
- (b) Efficiency: the extent to which taxes encourage efficient uses of resources by those who pay (or avoid) them.
- (c) Buoyancy: the extent to which tax bases expand or contract in response to forces operating on the expenditures they finance.
- (d) Administrative capacity: the ease and cost of administering a tax and its consistency with the skills available.
- (d) Political sensitivity: the degree of likely political support or resistance to effective levy.

The Importance of Buoyancy

2.157 Most economic analysis of municipal revenues focuses heavily on efficiency and equity. But in practice, the key to financial strength is the buoyancy of the municipal revenue base. The increasing demands on municipal budgets are fuelled by three sources: inflation, increasing urban populations and economic growth (which generates more traffic on city roads, more water consumption, more refuse for disposal). Efficiency measures may lead to some reduction in real unit costs, but generally speaking municipal budgets can only meet these pressures if their revenue base is expanding in line with growth in prices, population and incomes. So long as cities are growing, buoyancy is the critical dimension of municipal finance. Other considerations, however important theoretically, are secondary in practice. There is a simple reason.

Without buoyant revenues a municipality loses confidence in its ability to cope with its tasks. A reactive, manipulative culture takes over; the capacity for strategic, efficient resource use is lost.

2.158 Buoyancy is dictated in part by the inherent characteristics of the revenue base. For example, revenue sharing is usually a more elastic form of transfer than grant aid, because its growth rate does not depend upon discretionary decisions. A local sales, excise or entry tax is usually more buoyant than a property tax, because its base automatically reflects growth in prices and consumption (through both rising populations and prices) without discretionary processes of registration and revaluation.

2.159 But the buoyancy of a revenue base is also heavily conditioned by the political and administrative costs of exploiting it. Every stage of the taxation process--setting tariffs, identifying payers, assessing liabilities, and enforcing payment--requires some degree of administrative effort, some ability to surmount or avoid political resistance. Two simple rules obtain. First, taxation is much easier if the object and the extent of its liability are automatically identified and do not have to be sought out. Second, taxes (or charges) are more readily assessed and paid when those physically paying them can pass on the ultimate cost.

2.160 Looking at the overall structure of governmental revenue, one can see a preponderance of taxes and charges which are identified automatically and are passed on. Imported goods flow through physically restricted points of entry; excise goods leave factory gates; the duties can be passed on to retailers and consumers. Personal income tax is assessed and paid by employers with deduction at source. Most sales and value added taxes are added to prices. The biggest problem areas are taxes like those on corporate profits where liabilities can be difficult to identify and are not passed on, or sales and service taxes on small businesses under no compunction to record transactions openly and accurately.

2.161 Turning to the performance of municipal revenues, one can see the strong influence of these political and administrative factors. The most buoyant factors tend to be the following:

- (a) The local income taxes (or income tax surcharges) in countries with a high percentage of wage earners.
- (b) Sales or transaction taxes like 'octroi where liability is automatically declared (e.g., by goods passing a check post).
- (c) Forms of registration tax like the Indonesian motor vehicle tax or business licencing where the payer approaches the municipality (and not vice versa), liabilities are hard to conceal and incentive for compliance therefore strong.

2.162 Least buoyant tend to be those revenues like property taxation or personal levies on the self-employed, where no stage of identification, assessment or collection occur automatically, i.e., without positive effort on the part of the municipality, and which are therefore most liable to inertia,

corruption or timidity. This can be readily understood in view of the exceptional political exposure of local government highlighted earlier. This means that if a revenue source is politically and administratively costly to exploit, those costs will be magnified in the hands of municipal government.

Local Taxation

2.163 Property taxation is by far the most common form of local tax in Africa, Asia and the Americas, though fast disappearing in most of Europe. It has clear advantages as a local tax in that there are apparent connections between the value of, or income to property and its physical environment, there can be little argument as to which authority the revenue should accrue, and few central governments covert its yields. Effective exploitation however depends on constantly up-dated cadastral survey and valuations, together with rigorous enforcement of payment. Buoyancy can only be maintained with constant revaluation (either by individual reassessments or by automatic indexation) or by regular increases in rates of tax. These are rare in Third World cities. In consequence it is almost universally a declining source of revenue for municipal government in relative rather than absolute terms.

2.164 Efforts to improve property taxation have had only limited success. Some increases in collection efficiency have been achieved, usually by simple measures. For example, Delhi improved collection by 96 percent in one year, 1986-87, mainly by requiring tax payers to pay their assessed tax before appeals against assessments could be heard, freezing bank accounts of defaulters, awarding discounts for early compounded payments, and decentralizing collection points. Calcutta Municipal Corporation abolished door to door collections, substituting payment through local cash offices, banks, etc. Sri Lankan urban authorities were encouraged to introduce a system of reminders and warning notices; previously there had been no stage between the initial demand and distraint of goods. Making more people pay what is already due is the least costly measure, and can earn some votes from those who have already paid. Improving registrations has also had localized success; some Philippine municipalities have doubled their property rolls.

2.165 Least successful have been efforts to increase the real incidence of property taxes by higher tariffs and improved assessment. In Malaysia, Philippines and Thailand long delays have been experienced in introducing new property valuations. A new system of indexation of property values has been only very partially implemented in Colombia. This reluctance is often as much or more on the part of central government than the municipalities. It can be attributed to the fact that this is the most overt and direct form of taxation--aid in cash and rarely susceptible to "passing on." Together with the lack of buoyancy, this sensitivity casts doubt on the realism of municipal development strategies based principally on property tax improvement.

2.166 Local revenues showing greater buoyancy are usually based on a single major tax on income or expenditure rather than property, or on a combination of taxes. Local surcharges on income tax, personal and corporate, are important in several Western European countries such as Denmark, Italy, Norway, Sweden and Switzerland, and in several US cities. France has a local payroll tax specifically for transportation expenditure. Their potential is clearly greater

in countries with a large percentage of adults in wage employment and depends upon the willingness of central government to restrict its own income taxation rates to levels which permit a substantial surcharge. In Sweden the local surcharges are higher than the national tax liabilities for all but the wealthiest payers. But crude forms of graduated personal taxation are important local revenues in Uganda and Zambia, and currently under re-introduction in Kenya.

2.167 Local taxation of expenditure takes many forms. Some, like taxes on entertainment, are widespread but of modest yield. Some like motor vehicle registration taxes are substantial and buoyant, but randomly distributed between levels of government--local government taxes in Egypt, Indonesia, Korea or Thailand, state or provincial government levies in India or Pakistan, more typically appropriated by central government. Surcharges on petroleum sales taxes are important in Japan and Thailand, and on electricity and gas sales in Turkey. Brazil's highest yielding local tax is on services. Probably the highest and most elastic yields are from octroi, the municipal import duty levied in Nepal, Pakistan and parts of India; there are strong arguments for retaining this tax where it still exists, but little likelihood that it would be introduced elsewhere.

2.168 The basic problem is that the assignment of substantial and elastic taxes on income or expenditure to local government is extremely random and idiosyncratic. Local government systems may possess such sources as a result of long history, but other governments may exploit them centrally and be unwilling to surrender them to lower tiers. Indeed there has been a general tendency to reduce local taxation in the interests of rationalizing fiscal policy. Countries as diverse as Bangladesh, Brazil, Colombia, Indonesia, Mexico and West Germany, have all reduced or eliminated local taxes on the grounds that they have disincentive effects on industry and commerce, substituting transfers from national or state governments.

User Charging

2.169 User charges share some of the less promising characteristics of property taxation. Payment is overt and collection often administratively intensive. Response to price inflation is dependent on specific decisions to raise tariffs which are politically sensitive, particularly in view of the mass consumption of, and dependence upon some of the services affected, such as water and public transport. Water tariffs in Karachi were unrevised between 1947 and 1982. But the link between charges and services is far more tangible, and it is often possible to "sell" tariff increases if they are associated with improvements in service, e.g., to increase bus fares if new buses are bought and service becomes more reliable, or water rates if pressure is boosted. Moreover, collection is potentially easier with the ability to cut off access to the service.

Transfers

2.170 Transfers, whether by revenue sharing or grant, are important to many systems of municipal government and that importance is increasing. Transfers are frequently around 40 percent of municipal revenue (e.g., 42 percent in

Turkey in 1987, 38.5 percent in USA, 46.6 percent in Britain and 36.3 percent in France, all in 1985), but as much as 70 percent in Mexico and 75 percent in Indonesia. Two variables are fundamental in determining the proportion. One is the extent of municipal responsibilities; who pays for education, and teachers salaries in particular, is crucial. Full primary education costs are, for example, met by Indonesian authorities though mainly recovered from transfers. The other variable is the buoyancy of the local base. Bombay and Karachi, for example, meet the costs of infrastructural services plus schools and hospitals with very little grant aid, because octroi gives them an effective tax on part of the nation's external trade. Swedish authorities maintain a full range of physical and social infrastructure with only 22 percent grant aid in 1986, precisely because the Government keeps its own basic rates of income tax at a minimal level to permit a substantial local surcharge.

2.171 As mentioned, there has been a tendency for central governments to prefer increases in transfers to real improvements in local taxation and in some cases to substitute them deliberately for reductions in local levies. Is this wrong?

2.172 Several arguments are customarily advanced against proportional increases in transfers. The first is that it overstrains the national budget. An example is the SAR on the Indonesian Urban Sector Loan which states "the recent decline in oil prices and central government revenues has demonstrated the need to reform the present system of local government revenue and gradually shift the burden of financing and generating revenues for local expenditures from the center to local governments." Local tax payers should pay more to relieve the strain on national tax payers. This is tenuous since, generally speaking, individuals and corporate bodies pay both national and local taxes; these draw from the same pockets. The problem of budget overstrain means simply that public expenditure as a whole needs to be reduced, or that taxation as a whole has to be increased. If overall public expenditure needs reduction, it does not necessarily follow that municipal expenditure should be the prime source of saving. If taxation as a whole needs increasing, it does not follow that local taxation is the best instrument. Given the low elasticity and administrative and political costliness of many local tax bases, it is understandable that governments like Indonesia should put their major fiscal efforts elsewhere.

2.173 The second argument is that transfers are bad for efficiency and equity, because they do not impose the burden of financing local services on those who benefit. This would not apply to revenue shares based on origin and is, in any case, only partially correct. Transfers are financed by national taxes which are paid by beneficiaries of local as well as central government services. There is not all that much difference in principle between paying for one's local road through a local tax, or through a national tax converted into a grant. Nevertheless, transfers could be criticized on the benefit principle if their distribution did not reflect the contribution of urban tax payers as a whole, or particular urban areas to national taxes, i.e., if they resulted in geographical transfers of resources from rural to urban areas, or from poorer to richer areas.

2.174 This argument is extremely difficult to prove one way or the other, since it depends on measuring the derivation of national taxation, and also distinguishing between the benefits conferred by urban infrastructure upon city dwellers and those of the hinterland. Neither is statistically easy and both are contentious. Nevertheless, it does highlight the need for rational distribution of transfers, so that any implicit subsidization can be justified on the grounds either of agglomeration costs or social justice. In Turkey for example, metropolitan municipalities receive additional shares of national taxes collected in their areas. In so far as cities like Istanbul incur heavier per capita costs of traffic management, refuse disposal, water or sewage pumping, etc., because of their size and location, these can be justified in terms of need and economic contribution. Whether such agglomeration costs arise in the smaller metropolitan municipalities is far more questionable. Turning to social justice, Japan and Korea have revenue sharing systems with a substantial degree of equalization. Distribution formulae compare spending needs and local revenue potentials on the basis of standardized calculations (not actual municipal budgets). As a result in Korea overall per capita municipal revenues in the poorest province were 70 percent of the average in 1983, although local revenues were only 50 percent of the average. In Japan equalization transfers actually leave the wealthiest cities, Tokyo and Osaka, with overall per capita revenues lower than three other prefectures.

2.175 The third argument is that transfers impair local accountability; municipal governments will not care about efficient use of revenue and will not be held to account for it, unless they go through the pain of collecting it and are identified by local voters as responsible for "their taxes." Conversely, local communities should have freedom to tax themselves more heavily to achieve higher standards of service, if they wish. It is very difficult to assess the force of these arguments. They presuppose a fully democratic system of local government in which voters have real choice over their councils and executives. The arguments assume that local voters will make those choices on issues of local rather than national preference. They also presuppose the elector's ability to distinguish local from national tax payments. All these are highly variable conditions, often heavily qualified in practice. There is also an issue why this type of accountability should be particularly important to municipal government, when it operates so imperfectly at national level due to the indirect nature of much national taxation and the impact of external economic and political factors on the tax level/public expenditure equation. Finally, it can be argued that the voters will hold municipal governments to account for the quality of services, for the ways they spend money, regardless of their financing.

2.176 In practice, those municipal governments in the Third World which operate without substantial revenue from transfers have either

- (a) very limited functions, and therefore little to be accountable for; or
- (b) a local indirect revenue source like octroi which is not directly paid by the mass of voters.

2.177 What is more practically important to accountability and autonomy is discretion at the margin. Transfers may finance a substantial proportion of expenditure, but there should be a significant residue funded by local taxes over which municipalities have substantial discretion. Ideally that discretion should extend to the tariff; but even where tax rates are set nationally, there is often considerable variation (and therefore choice) over the effort put into assessment and collection. Given the significance of fixed commitments in most municipal budgets, it is discretion over spending and taxing levels at the margin which is most important to local accountability and autonomy.

2.178 Local surcharging of national taxation is one way of trying to get the best of both worlds, i.e., giving municipal government access to the buoyant tax base which central government may not wish to surrender, but preserving some degree of local autonomy and accountability. This assumes discretion over the surcharge, i.e., that its scale is locally determined, possibly within statutory limits. Accountability may be diluted if the municipal destination of the surcharge is not clear to the tax payer, but this is true of all precepting revenue systems and can be overcome to some extent by publicity.

2.179 Taking European experience, there is no evidence that municipal systems financed by surcharging are less accountable or efficient than those funded by direct local taxes. Nor, for that matter, is there any evidence that Dutch local government which is almost wholly funded by revenue sharing, is less efficient as a result.

2.180 Another approach to the issue of accountability is the inclusion of performance related elements in grant systems. The West Bengal Government calculated its current operating grants to municipalities to bridge a gap between revenue and expenditure, projected according to standardized assumptions about potential revenue improvements and expenditure growth rates. If actual deficits fell short of the estimated gap, the grant saving could be diverted to a capital development loan; if they exceeded the estimate, extra grant had to be at the expense of capital development. In Sri Lanka 25 percent of the block grant is payable on the basis of performance, measured by a series of indicators covering revenue collection, administrative processes and service delivery. The 25 percent is reduced to the extent that performance falls below a target score, but can be increased by exceeding it.

2.181 Performance conditions have long been associated with specific grants including the provision of matching funds. The West Bengal and Sri Lanka programs are relatively new in applying such tests to block grants. Two problems arise. The first is ability to develop measurements of performance; collections of revenue from a very fixed base such as property tax valuations are easy to compare, but in many cases the real "potential" of a source cannot be objectively measured; service delivery may also be hard to compare in sufficiently precise terms. The other and greater problem is the political independence of the process. In very competitive political conditions, it is difficult to expect central government to apply the "rules of the game" impartially. In West Bengal for example, the sanctions have not been enforced; increased deficit grants have been paid without detriment to capital funding. This problem will be discussed again in respect of central local relations.

2.182 A further argument is that transfers limit the efficiency of local choice because of restrictions on their use. Clearly much depends on the nature of the transfer. Many transfers are in the form of revenue shares or block grants with no stipulations over their expenditure. Some restrictions are nominal, e.g., the Brazilian municipalities are required to spend 25 percent of local and shared tax revenues on education, but would be unlikely to allocate less to this service in any case.

2.183 The problem obviously is over specific grants. These can distort local priorities (more so in the case of matching grants), and impose inappropriate conditions. The Indonesian Primary Education Development Grant used to prescribe a single uniform size for all school furniture. On the other hand there are arguments for specific grants. There may be genuine national interest in promoting particular types of investment, but efficiency grounds for implementing it through local government. Central guidance may be justified where local accountability is imperfect. It is important in practice to recognize that the distinction between central and local discretion is not absolute; there can be efficiency in choice at both levels. There may be national interests in promoting a particular area of investment, but legitimate local variations in the way it is carried out. Much depends upon the nature of the service and its susceptibility to national prescription or local variation.

2.184 The Indonesian development grant system (INPRES) has been interesting in this respect. Uses of the grant for primary education and primary health care development have been fairly tightly prescribed, since these are fields in which needs can be measured in demographic terms and costs and methods of provision vary but little; even so local choice has been exercised over location. The physical infrastructure grants have been less tightly prescribed; it is up to local governments to propose use on a prescribed range of services (roads, drainage, irrigation, etc.), according to broad criteria; local physical conditions imply far greater variation in use. Least prescription has applied to the provincial development programs which finance small scale investments in employment creation in areas of greatest poverty; this is heavily dependent upon local knowledge of productive and market opportunity. The degrees of central prescription and local discretion have been graded and adjusted according to the nature of the investment and an assessment of "who knows best."

2.185 The final argument against transfers is that they inhibit local planning because of their unpredictability. Experience varies greatly. A number of African governments--Kenya, Sudan and Zambia for example--have been extremely unreliable in administering grants, frequently withholding increases or reducing them without concern for the impact on municipal services. But they have been equally arbitrary in their treatment of local taxes and charges, refusing approval to increases or even abolishing them without adequate compensation. Some governments have been irresponsible over payment of transfers; much difficulty was experienced in Nigeria until responsibility for revenue sharing payments was transferred to the Central Bank. But equally many transfer systems have proved remarkably reliable. Most revenue sharing systems do operate systematically. And many governments have acted responsibly in administering grants. The Indonesian Government, for example, has applied smaller percentage cuts to its transfers than to its overall budget since the reduction in its oil-based revenues.

2.186 To sum up, effective municipal government in growing cities needs access to a buoyant revenue base, usually involving taxation of income or expenditure. Without such access, with a heavy dependence on unpopular, inelastic and administratively complex taxes, municipalities will lack vital self-confidence in their ability to manage urban growth. Buoyancy is determined both by the innate responsiveness of the tax base to growth in prices, populations and incomes, and also by the administrative and political costs involved in exploiting it. It is obviously preferable if that access is through taxes levied directly by municipalities; discretionary surcharging of a national or state levy may also be an acceptable alternative. But it also has to be recognized that such access may be impossible due to central monopoly of buoyant tax sources or technical difficulties in administering them at sub-national level. Moreover, equalization policies may require some geographical redistribution through national channels. In such cases the municipal access to a buoyant tax base has to be, at least partially, through transfers rather than its own taxes.

2.187 A substantial dependence on transfers may be more conducive to municipal effectiveness if:

- (a) transfers are formula based, to rationalize their distribution, reduce municipal dependence on patronage and political manipulation, and increase their predictability;
- (b) any restrictions on use by municipalities are based on careful thought about the degrees of national and local discretion appropriate to particular types of investment;
- (c) municipalities retain discretion over the tariffs of significant local revenue sources so that they can make choices over the scale of revenue and spending at the margin of their budgets.

2.188 As a postscript it is useful to recount the experience of Turkish municipalities. Between 1960 and 1980 real per capita revenues of municipalities fell by 25 percent. Municipalities behaved in a highly reactive and manipulative fashion, amid deteriorating urban conditions and growing political and civil unrest. Since 1981 the Turkish Government has pursued a strategy of increasing transfers and local revenue simultaneously. Overall municipal revenues have increased from 2 percent of GDP in 1985 to 3.4 percent in 1987, but over the three years 1985-87 locally raised revenues have increased at a faster rate than transfers (from 0.8 percent of GDP to 1.6 percent). There is much to suggest that the main reason for this has been the increasing ability of municipalities to undertake visible investment and deliver services, and thereby to justify greater local fiscal effort.

Capital Financing: Loans

2.189 Discussion so far has not distinguished between recurrent and capital financing. Transfers, taxation and user charging are primarily assigned to meeting operating and maintenance costs for services, though these may well include servicing loans for capital expenditure. They may also generate a

surplus for capital spending, and some grants are, of course, specifically for development.

2.190 Loan finance is often regarded as the natural source of capital funding, and in both Britain and the United States the bulk of municipal construction has been financed by credit. There are at least three arguments for its use. It may be the only source of funding if recurrent revenues do not greatly exceed operation and maintenance commitments, or if large projects need to be undertaken beyond the scope of annual budget surplus. Using surplus to service debt rather than for direct capital spending can accelerate development. And borrowing distributes the cost to projects over the life of the loan and therefore over successive beneficiaries.

2.191 Practice varies, however, and there are many countries where credit is not important and where capital projects are largely financed from budget surplus or from grants, India, Indonesia and Sweden being contrasting examples. It can be argued that credit leads to inefficient expenditure because the costs of projects are not immediately visited on tax payers. Political leaders with short terms of office may be tempted to mortgage the municipality's future for the sake of short term popularity.

2.192 Much depends in practice on two questions--the availability and channels of credit, and the municipality's ability to service debt. Although British and American local governments borrow extensively and directly from the capital markets through issues of bonds, debentures, etc., municipal credit institutions have played important parts historically in financing local capital development in Europe. Virtually every Western European country except Eire and Switzerland has a specialized institution for this purpose, varying from municipal credit banks (e.g., the Belgian Municipal Credit Bank or the Spanish Local Credit Bank) to municipal lending funds operated by national savings and deposit banks (e.g., the French Caisse des Depots et Consignations or the Italian Cassa Depositi e Prestiti). These have spread widely to African, Asian, and Latin American countries over the last thirty years, and are now increasingly used as conduits for international agency lending to urban development.

2.193 Such credit intermediaries have considerable potential advantages in providing municipalities, particularly the smaller authorities, with access to capital markets or donor lending which they might not be able to secure at all, or as favorably, by themselves. They can provide municipalities with helpful guidance and technical assistance in designing and executing capital projects. Their utility must not be overestimated, however. The European banks have thrived over a century or more because they are subject to normal market disciplines, having to compete both to borrow from depositors and to lend to municipalities. But most Third World institutions are not in this position. Most of their funds come not from the capital market but from central banks, government revenues, donor credit and captive funds such as nationalized social security insurance. They have no problem in recovering debt service since it is deducted directly from revenue shares or grants. The only compunction on them is to lend their deposits and meet their own costs from "spread." Normal banking disciplines do not operate. Contrary to expectations, they are not necessarily vigilant over the credit-worthiness of their municipal borrowers;

indeed their self-interest is to lend as much as possible. Accountability is also undermined where such institutions undertake capital projects themselves and then pass on the costs by way of loan to the municipalities.

2.194 Municipal capacity to service debt should not be in question in the case of "self-liquidating" projects, which generate revenue for both operational costs and repayment of loans. The internal viability of the project is the basic test. The issue of debt service capacity arises over borrowing for projects with no specific revenue return, such as roads, drainage or social services. Various criteria are used to assess this capacity, often enshrined in the municipal law. These usually impose a maximum ratio of debt service liability to annual revenue, 15 percent being the common figure, or the tax base (e.g., total assessed property value). In practice, these criteria are not particularly helpful. Reliable assessments of credit worthiness need to be based upon projections of revenue and of committed expenditure (i.e., salaries, wages and operating and maintenance costs) to estimate the annual margin available for debt service; these projections need again to be specific to individual municipalities.

2.195 In short, credit finance can be a useful source of finance for capital investment, and has been important in many countries. But there are dangers if it becomes "supply led" through official credit intermediaries which are not subject to market disciplines and real accountability. The assumption that credit will encourage both the lender and the municipality to ensure good house-keeping is not borne out by experience in Third World municipalities and the practical imperatives can have the opposite effect.

Capital Financing: Land Development

2.196 Both loans and revenue surplus are widely used to finance the capital costs of urban infrastructure. An alternative--increasingly used--is some form of "one-off" charge to the beneficiaries, normally the landowners in the area served. The benefit principle of charging is particularly relevant because of the increases in land values which usually result from public investment in urban services.

2.197 Several methods are in use. The most widespread is a straight levy on landowners, apportioning the cost of a specific investment (e.g., a road or a sewer) to all those served in proportion to plot size or frontage. For services not immediately adjacent to plots (e.g., main suburban roads, parks, etc.), "zones of influence" may have to be determined and the incidence of the charge graduated according to proximity. Such charges have varying titles--special assessments, valorization taxes, initial service charges. They have the potential advantage of linking liability to a visible and popular improvement, though this depends upon prior negotiation with landowners so that payment is clearly seen as a condition of the investment.

2.198 A second method is that of requiring landowners to pay a specific charge for permission to undertake developments which will require new or expanded public infrastructure. An alternative is to oblige the developer to install the infrastructure directly to standards regulated and monitored by the municipality or other public agency concerned.

2.199 A third is land adjustment or reblocking, an approach widely used in Japan and Korea but practiced to a lesser extent in several countries from Australia and Brazil to Germany and India. When infrastructure is extended to new areas of urban settlement, landowners have to surrender a part of their land to the municipality which recovers the capital costs by development and resale. The increase in land values from the acquisition of services more than compensates the original owners for the contraction of their property.

2.200 A fourth approach is public acquisition, development and resale of land pioneered in Britain by the founder of the writer's University, Joseph Chamberlain, and practiced widely in South Asia by Improvement Trusts and Development Authorities, and now by the HUDCs in Turkey. Recovery of capital costs relies here upon the change in land values between acquisition and sale. This depends in turn upon ability to acquire at previous use values which may require legal backing since market prices will probably reflect urban use potential. It also needs determination to sell at full market value, which can be eroded by nepotism.

2.201 The final instrument is the betterment tax, imposed on the specific increase in land value arising from a public investment. This is beloved of theorists, but largely abortive in practice. Measurements of the tax base are difficult and contentious. Moreover it is politically difficult to impose a tax on an increase in value until it is realized in cash, i.e., by sale or rental, turning the tax into another levy on rental income or capital gains.

2.202 With the exception of betterment taxes, all these methods of capital cost recovery can be illustrated by success in particular cities and countries. Their potential lies in their use as a bargaining factor--as the price of something the payer wants, whether it be a road, a water supply or permission for subdivision and construction.

III. ACCOUNTABILITY

A. Accountability to the Electorate

3.01 Accountability is crucial to the effectiveness of any organization, public or private. If the exercise of authority is unchallenged, it is vulnerable to inertia, self-interest, insensitivity and corruption.

3.02 Municipal government is normally accountable in two directions--to its electorate and to central government. It is the local accountability which is supposed to be its hallmark. Most of the standard justifications for devolution assume that municipal government is fundamentally representative in character.

3.03 In practice, local accountability may be diluted in any of several ways. Councils may consist solely of government appointees as in Malaysia. Government nominees may hold the balance of power. In one party states such as Tanzania, voters can choose only between candidates nominated by the party. A single party may be so dominant in particular areas that its selection of candidates virtually determines their election. Councils may be suspended by the Government and their affairs discharged by centrally appointed administrators. Calcutta Municipal Corporation has been suspended four times since 1947, the longest period being 15 years. Pakistan municipalities were run by appointed administrators throughout the 1970s. In a number of Western countries such as the United States and Britain, the representative character of local government is also compromised by low turnouts at local elections; an average of 40 percent of registered voters participate in British local polls, compared with 76 percent in national elections.

3.04 In a number of countries such as Indonesia and Sri Lanka, councils are elected on proportional representation, party list systems. Each party wins seats in proportion to its overall vote, and these are filled by the appropriate number of candidates on its "slate." Councillors are not therefore elected by individual wards. While securing a fairer representation of parties than the "first past the post" system, the absence of ward representation breaks a vital link between electors and the neighborhood councillor. The Chairman of a Regency Council in Indonesia once admitted that all members lived in the headquarter's town and none were familiar with conditions in the rural hinterland. Brazil has an interesting via media. Electors vote for a single name on a party list. Seats are distributed between parties in proportion to the aggregate votes of their candidates, but a party's seats go to its highest scoring candidates. However, votes are recorded by polling station, so that it is clear where each member's support lies.

3.05 Even if a Council is fully representative, neither it nor its electorate may have full control over its executive. Central civil service administrators may act as chief executive. Korean mayors and Indian municipal commissioners are usually members of national/state administrative cadres, as are the chairmen of most district councils in Malaysia. Indonesian mayors and regents are chosen by the Ministry of Home Affairs from a panel of names submitted by the Council, but its order of preference is not necessarily respected. It is said that names of acceptable candidates are normally intimated to the Council. Thai mayors are appointed by provincial governors

from membership of the municipal assembly, and town clerks posted by the Ministry of the Interior.

3.06 Does this dilution of electoral accountability matter in practice? Even nominated councillors may be chosen for their local knowledge and position of respect. Appointed executives may still be keen to advance their reputation by energetic management of the municipality, and to protect it from evidence of local dissatisfaction. It is said that Korean mayors are anxious to win good opinions because local complaints will blemish their record and their promotion prospects.

3.07 Electoral politics can also be extremely disruptive, particularly if elections are held frequently as in some Latin American countries. Mayors and councils hold office for only three years in Mexico (mayors being ineligible for re-election) and mayors for two in Colombia. It is very difficult to achieve stable management in such circumstances, or for administrations to take their policies to the point of implementation where performance can really be judged. There is a reluctance to make hard choices, particularly over budget cuts or revenue increases, with an election looming. The Turkish Government even tried, unsuccessfully, to bring the 1989 municipal elections forward on the grounds that inflation could not be tackled until the politicizing was over.

3.08 The performance of a particular municipal electoral system is hard to disentangle from a range of environmental factors, political, social and economic. But a few tentative points can be made.

3.09 First, the political exposure of municipal government will remain whatever its composition. Decisions over planning permission, contracts, housing allocations, a liquor licence or a job are important to the economic interests of the people affected, and they will exert pressure on those who make them, whether elected or not. Putting administrators or central government nominees in charge does not remove politics from municipal management; it simply drives it underground. Pressure and influence are still exerted but behind closed doors instead of in the open debate of the council chamber and the hustings. It usually makes municipal administration more corrupt, not less.

3.10 Second, the character of municipal management usually reflects its environment. The relatively vigorous and progressive municipal governments of cities like Bombay, Curitiba, Istanbul or Medellin, reflect the dynamism of their business cultures. The querulous turbulence of municipal industrial relations in Calcutta or Shanghai again reflect the wider politics of the city.

3.11 But Bombay offers another example. Until recently it was the only Indian municipal corporation which could not legally be superceded (i.e., suspended by State Government and replaced by an administrator); the law was amended and the Corporation superceded in 1983, but political pressure led to an early return of elected rule. It is often argued that its greater effectiveness in comparison with Indian municipal governments is precisely due to the regularity with which elections have been held, and the expectation that this creates among the political leaders. They know that they will have to face their electors.

3.12 This is reinforced by other examples. The restoration of municipal elections in Pakistan in 1979, in West Bengal in 1981 and in Dakar, Senegal, have all resulted in more vigorous municipal administration including improvements in local revenue.

3.13 It is difficult for municipal leadership to undertake the more challenging tasks (including revenue improvement) unless it has the legitimacy of declared electoral support. This is particularly true in countries with established representative institutions, or cities where migration has bred competitive but close-knit communities which are campaigning actively for access to urban services and economic opportunities, and do not accept established power structures. The ability of elected leadership in Istanbul to carry out massive land clearance and relocation is an outstanding example of the importance of a mandate.

B. Accountability to the Central Government

3.14 The panoply of controls exercised by central (or state) governments over municipalities in Third World countries is formidable. It can include any or all of the following:

- (a) the power to veto the appointment of, or dismiss the mayor/chairman/chief executive;
- (b) the power to dissolve councils or suspend individual members;
- (c) approval of budgets, taxes, fees, loans, contracts, individual projects;
- (d) approval of staff appointments and dismissals, conditions of service, establishments, gradings and minimum qualifications;
- (e) approval of physical development plans;
- (f) approval of development plans for services;
- (g) approval of laws, by-laws or resolutions;
- (h) audit; and
- (i) reserved power to take over administration of particular services.

In addition various "strings" may be attached to the expenditure of central/state grants and loans.

3.15 Controls have a number of nominal goals--macro-economic regulation (involving levels of public expenditure, taxation or borrowing), enforcement of minimum service standards for reasons of social justice or to counter migration, ensuring local compliance with national political philosophies, or a paternalist concern to protect local citizens from corrupt or irresponsible administration.

3.16 The degree of central control varies widely--weakest normally where municipal government has grown from strong civic "home rule" roots, strongest where it is a representative veneer on a hierarchical structure of national administration. The Napoleonic concept of tutelage ("tutelle") is often strong in countries with histories of Dutch, French, or Ottoman rule.

3.17 The operation of central controls rarely corresponds with their rationale. In the first place those exercising the controls in detail, and particularly administrators in ministries of Local Government or provincial administrations, often lack skill, vision or knowledge to make informed and positive assessments of the budgets, taxes or plans which they are scrutinizing. The result is highly formalistic procedures in which concern is restricted to compliance with legal requirements rather than fiscal prudence. For example, Turkish governors and subgovernors have to approve municipal budgets within a week. They are concerned purely that the budgets balance and that the personal emoluments do not exceed 30 percent of expenditure, but not that revenue estimates may have been inflated unrealistically to achieve this. A Jordanian mayor reported that he got his budget approved in one day by taking it personally from desk to desk in the Ministry of Municipalities.

3.18 Ineptly exercised control not only defeats its intended purpose of improving municipal decisions. It can be positively harmful if it subjects those decisions to delay or political manipulation. Delay is a frequent complaint. Some French inspired laws stipulate that decisions are deemed approved if not specifically disapproved within a specific time. Most other municipal legislation omits this requirement, and long delay in approving budgets, tax rates, appointments, etc., can be experienced.

3.19 Second, controls are often exercised within a highly competitive political environment. Municipal governments are not passive recipients of central commands. They are players in a game. Their weapons are political--the dependence of national leaders on "grassroots" party support, or the ability to embarrass Central Government by blaming it for failure to approve or support municipal programs. Central Government, too, is often playing a political game. In Turkey three mayors were suspended because they defected from the ruling party; the distribution of national agency investments, the allocation of grants and loans, the creation of municipalities and delineation of boundaries have all been weapons with which national parties in power reward or penalize local communities according to their allegiance. In many countries central approval of appointments and contracts has been used, not to discourage nepotism, but to favor the supporters of powerful ministers.

3.20 The greatest danger is that central local relations become a cynical game characterized by mutual irresponsibility. Central Government fails to pay grants or revenue shares due to the Municipality. The Municipality fails to forward employees' income tax to the Tax Department, or to pay the Electricity Corporation for the street lighting. The Electricity Corporation overcharges the Municipality and fails to pay its property tax.

3.21 This can only be overcome if the central agency responsible for municipal government plays a supportive, mediatory role. The Urban Programme Unit in Sri Lanka offers an interesting example. It was set up within the

Ministry of Local Government, Housing and Construction with the specific object of fostering improvements in municipal performance. One of its immediate objectives was to secure municipal payment of arrears of Rs 61 million due to the National Water Supply and Drainage Board. To achieve this, it had not only to promote improved revenue collection, but also to investigate municipal complaints of overcharging by the NWSDB. Some of these proved to be correct; the Board was not metering water supplied to municipalities but charging them for all water not specifically charged to other consumers, i.e., including all the leakage. Only when the UPU persuaded the Board to remedy its charging, was it able to induce municipalities to pay their bills.

3.22 Another aspect of the Urban Programme Unit's work has been its attempt to lay down positive standards of performance by municipalities and to promote these through competitions and incentives in the grant structure. Specification of standards is generally more effective than procedures for individual scrutiny and appraisal of plans and projects. Much of the effectiveness of the INPRES programs in Indonesia has been due to the clear specification of criteria and standards (even if these have at times been unnecessarily or inappropriately precise). Both the Calcutta Metropolitan Development Authority and Jordan's Cities and Villages Development Bank have laid down maximum and minimum standards for the projects they have financed through loan or grant (e.g., CMDA finances water supplies providing between 5 and 25 gallons per capita per diem, and markets providing between 50 and 600 square feet of covered space per 1,000 population). In the case of retail markets CVDB limits individual stalls to 18 square meters, but insists on one toilet per six stalls). This gives municipalities clear guidance on what would be approved, and reduces delay and the exercise of arbitrary judgement by central bureaucrats.

3.23 A positive and supportive attitude is required of central ministries with supervisory roles--positive in seeking to achieve particular performance standards, supportive in mediating with other central agencies whose cooperation is needed, and in providing incentives, whether financial, educational or simply motivational--attention and publicity, for example.

3.24 The problem is that central ministries of Local Government or the Interior often have no tradition of positive and supportive action. They are often staffed by aging middle-level career officers who have neither the ambition nor the self-confidence to give a lead in municipal improvement. This is one area in which donor finance can be helpful since it can provide rewards (prestige, foreign travel, etc.) and political support to attract ambitious and imaginative staff to serve in central controlling agencies--at least while the project lasts.

3.25 It is important, however, for the donor to identify the agency which has the leverage to improve municipal management. There have been tendencies for donors to focus their attention on the planning or public works agencies to whose professionals they find ease in relating, and to ignore the ministries of Local Government, Interior, etc., which control the various financial and personnel processes vital to municipal reform.

3.26 In western industrialized countries key actors in central local relations are the various national associations representing local authorities

or professions working within them. They are important in negotiating with Central Government over the way in which it exercises its controls and influence over municipal government. Their influence can be such that central legislation and policies actually reflect consensus within local government or its professions on what should be done, and innovations developed by municipalities themselves. Such institutions are less well developed in Africa, Asia and Latin America, although some of the Latin American municipal development foundations like IBAM play something of this role. Their potential role in municipal development is considerable, but only if they are genuinely creatures of municipal government itself, with the legitimacy of its support and control.

IV. EXTERNAL INTERVENTION

Pre-Conditions

4.01 Donor intervention is by now a major factor in municipal development in many Third World countries. As mentioned in the introduction institutional reforms may be associated with loan financing of urban investment, both as covenants and as objects of technical assistance components. Occasionally, as in the case of Sri Lanka, the institutional reforms are the sole object of external aid.

4.02 This section categorizes the various objectives of donor interventions, and discusses their relative success or failure. It attempts some assessment of what works and what does not. This must be prefaced by two major qualifications and an apology. First, many of the external aid projects are of recent origin and the full extent of their impact cannot be measured. Second, it is not easy to find comprehensive evaluations of their impact. World Bank Supervision Reports, for example, are often heavily concerned with disbursement and procurement, and lack information on achievement of objectives like cost recovery or improvement of management and operational systems. The apology is for inevitable repetition of points made in previous sections concerning individual aspects of reform.

4.03 There are two pre-conditions for effective external intervention. The first is the receptivity of Central Government. Municipal development invariably requires positive action by Central Government which will offend strong vested interests, whether of politicians defending patronage powers or engineers protecting their control over capital investment contracts. The momentum to overcome this resistance can only come from a current sense of urgency about municipal reform. This may stem from fiscal strain, though as in Indonesia this can lead to some ambivalence in government policy. The Municipal Management Project in Sri Lanka was triggered by the indebtedness of urban local authorities to national utility corporations. It may arise, as in Turkey or West Bengal in the early 1980s from a sense of frustration over previous failures to cope with urban growth. In Brazil the demand for greater devolution of responsibilities and resources to states and municipalities reflected in the 1988 Constitution arises from the reaction to military autocracy. Donor interventions need propitious timing, whatever its cause.

4.04 Second, the interventions need to be seen by the municipalities themselves as supportive. The hierarchical, dirigiste appearance of central local relations can be misleading. Local authorities have a political will of their own and see central departments and aid agencies neither as benefactors nor as objects of obedience, but as fellow players in a game. Their response to external initiatives will depend upon their own perceptions of their best interests.

4.05 Which brings me back to an earlier theme. The pursuit of effective municipal government is essentially attitudinal. The normative model on which donor programs are based, seeks to make municipalities proactive rather than reactive, independent rather than dependent, managerial rather than manipulative. An effective Municipality is one which is not afraid to cut off

water supplies to defaulters, to persuade landowners to pay special assessments for local infrastructural improvements, to extract better performance from undisciplined labor forces. These are politically sensitive actions for politically exposed bodies. They require confidence of public support, which can only arise from equal confidence in ability to deliver visibly improved services and a significantly better environment. Successful interventions will subscribe to this self-confidence. Those which erode it, will fail.

4.06 The specific institutional objectives of donor programs will now be categorized and discussed in turn.

Improving Central Guidance and Supervision

4.07 Donor programs frequently seek to strengthen national (or state level) machinery for guiding municipal development and scrutinizing municipal selection, design and execution of investment. The location of the machinery varies. It may be:

- (a) In a central/state agency like the Urban Programme Unit in Sri Lanka's Ministry of Local Government, Housing and Construction, the Central Project Office in the Philippine Ministry of Public Works and Housing, or the Madras Metropolitan Development Authority;
- (b) In a Municipal Development Bank like the Jordan Cities and Villages Development Bank, The Turkish Iller Bank or BANMA, Honduras;
- (c) In a Municipal Development Foundation such as those funded by USAID in the 1970s in several Latin American countries such as Bolivia, Costa Rica, Guatemala, Paraguay and Venezuela.

4.08 Success has varied. Generally speaking it has proved better to develop a unit within the central government machinery than quasi autonomous banks and foundations. There are two reasons. First, the agency needs leverage on the supportive actions which governments themselves have to take-- changes in legislation, approval of tax and tariff increases, approval of new budget formats or personnel systems, revision of formulae for transfers, etc. It is not only important to encourage the impetus for reform inside the central bureaucracy, but to identify the critical agency within it. Success in developing the UPU in Sri Lanka within a Ministry of Local Government (albeit under Prime Ministerial leadership) contrasts with past failures to coopt the support of Ministries of the Interior for systems development in Indonesia or Turkey due to focusing donor attention on ministries of Works or national planning agencies.

4.09 Second, municipal banks are largely concerned with their own survival. Contrary to expectation, they are under little pressure to ensure good housekeeping by municipalities since their practical problems are in making loans, not recovering them. They rarely have much power to achieve institutional reform, even if they are interested in doing so. The same tends

to be true of municipal foundations. The exception possibly proves the rule. IBAM, the Brazilian Institute for Municipal Administration has given extensive support to municipalities, but because it has not had guaranteed donor or governmental support, its funding has depended largely on its utility to the municipalities themselves.

4.10 Success in improving investment quality has largely occurred where central agencies have been concerned to lay down maximum and minimum standard specifications and unit costs, rather than rely on scrutinizing individual projects. This has been demonstrated by the Jordan Cities and Villages Development Bank, the Calcutta Metropolitan Development Programme and the Indonesian INPRES programs. In practice central agencies rarely have the time or skills to appraise municipal projects in detail and political pressures often override technical objections. Standards give municipalities clear signals and confidence that their programs will be accepted without undue interference and delay.

Improvement of Municipal Management Systems

4.11 Most donor aided programs focus in one way or another on improving municipal organization and process. The exact focus however varies. It may be on:

- (a) internal organization and personnel systems, as in the Cukurova Project in Turkey or the Indonesian Urban Sector Loan;
- (b) financial management, especially budgeting, accounting and budgetary control (for example in projects in Honduras, Nicaragua, Parana State, Philippines, Sri Lanka, Thailand and Turkey); and
- (c) medium term investment programming, (e.g., in the Philippines Municipal Development Project, Indonesia's IUIDP, the Cukurova Project, or the Parana and Salvador programs in Brazil).

4.12 The effectiveness of these interventions is particularly hard to assess since it is rarely measured or recorded. Some success has undoubtedly been achieved in the Sri Lanka MDP and is associated with four factors:

- (a) location of project management in the Ministry of Local Government, where revised procedures can be legally authorized;
- (b) emphasis on relatively simple improvements such as caution and accuracy in revenue estimation or issue of reminders to tax defaulters;
- (c) incentives for regular and punctual compliance with existing procedures which have been neglected; and
- (d) an extensive training program tailored to the needs of the urban local authorities and to the priorities of the whole program.

4.13 Two major problems have attended much donor intervention in system development. The first, already mentioned, is that outside Latin America management procedures are heavily regulated by law. Projects often underrate the time and difficulty involved in persuading governments to make the necessary amendments. The relevant sections of the bureaucracy are rarely those which have been involved in conceiving the project; moreover the fact that most projects only concern a select group of municipalities is often raised as an objection to changing regulations which affect all. The idea of geographically selective change does not appeal to central bureaucracies and can create practical difficulties for them, e.g., variations in budgetary format can confuse statistical reporting.

4.14 This resistance to systems reform is often fuelled by a second problem of donor intervention--the heavy reliance on consultancy, often of indifferent quality. The Turkish Ministry of the Interior objected to the revised budgetary systems proposed for the Cukurova municipalities not merely because it had not been consulted, but because it justifiably thought some of the proposals ill conceived, impracticable and even, in one respect, unconstitutional.

4.15 The consultancy firms normally employed on systems development typically derive their experience from industrial management or large scale public enterprise. Such municipal specialists as they may have are normally drawn from very large city governments in Britain or the USA. Local counterparts are often young graduates with foreign degrees in information technology, commercial accounting or operations research, who lack the ability to bridge the communications gap between foreign consultants and municipal officials. The resulting products are often manuals of unnecessarily sophisticated procedures, which have not been tested or submitted to any effective scrutiny by those who are supposed to implement them. The very fact that legal amendment is required provides a ready excuse for lack of practical testing.

4.16 Effective systems development can only come from working with municipal officials--either on the job or through a series of training workshops. It does not come from writing manuals with ready made solutions or through working in a central project office at arms length from the municipalities; these are the resort of consultants who lack the confidence or experience to relate to the real world of municipal management.

Improvements in Cost Recovery

4.17 Increasing the direct revenues of municipalities is the most common objective of donor programs, both to repay the loans they provide and to strengthen local independence of action.

4.18 In practice cost recovery provisions focus narrowly on property taxation and user charging. In the case of property taxation, assistance may be provided to improved tax mapping, valuation and /or collection systems, often with help from aerial photography and computerization. Covenants may require governments to amend tax rates or municipalities to increase

collection efficiency by specific amounts. In the case of user charges, investment programs typically require full recovery of capital and maintenance costs in respect of water supplies, markets, commercial refuse collection, slaughterhouses and bus terminals. Water and sewerage schemes usually prescribe a general tariff revision throughout the area served to generate specified rates of return.

4.19 Again, information is usually lacking on the implementation of cost recovery provisions except where covenants prescribe some specific tariff change or level of collection efficiency. A few general observations can be made, though to some extent impressionistic.

4.20 First, specific covenants over tariff increases or improvements in collection efficiency are normally successful, even if they take longer to achieve than expected. They concentrate the minds of the officials concerned and the contractual obligation to the donor provides them with the political cover of force majeure. Water charging in Calcutta, Istanbul and Karachi are cases in point. There must, however, be a very significant and immediate improvement in service provision to enable municipalities to take the political risks involved.

4.21 More generalized promotion of user charging is harder to achieve. It is often dependent on changes in accounting practice which may be obstructed by the problems discussed in the previous section. Increases in tariffs normally require specific approval by municipal councils (even when the services are operated by enterprises), and sometimes by higher levels of government. If there is a high rate of inflation, it will be difficult to get political agreement to any increase in real terms.

4.22 Turning to taxation, donor interventions focus almost exclusively on property taxation. Rarely does one find any covenant requiring governments to increase other forms of municipal revenue (direct or indirect); rarely does a donor program assist municipalities in collecting other types of tax. Indeed property tax increases are often expressed as necessary to reduce dependence on other municipal taxes (such as octroi in South Asia) or revenue sharing. Donor interventions seem to be based on a normative model of municipal finance which is at odds with international reality, particularly in Asia, Europe and Latin America, where effective systems of local government are increasingly supported by taxes on income or expenditure, not property, whether levied directly or shared with higher levels.

4.23 As discussed in Part Two, some limited success has been achieved in increasing the efficiency of property tax collection, for example through computerized records, automatic "chasing" of defaulters, and simply making payment easier. These may stem or slow decline in the real value of property tax. They may even maintain a constant proportion of municipal revenue needs in a country like Sri Lanka where urban populations have virtually stabilized. But there is no empirical evidence to suggest that property tax can provide a rising percentage of municipal revenue needs, particularly in circumstances of continuing population growth.

4.24 To pursue objectives of substituting property tax improvements for other forms of municipal revenue support, whether local or national, is to undermine the wider purposes of municipal reform. There is a fundamental mismatch between the innate inelasticity of property taxation and the spending needs of a growing city, and between its sensitivity and the political exposure of local government. To make municipal government more dependent upon property taxation would reduce, not increase, the confidence of its leaders in their ability to manage their cities, to provide the response to demands for increased services and an improved environment which alone can justify the political costs of strong managerial administration.

Reform in Central Local Relations

4.25 Interventions in central local relations--in the distribution of resources and responsibilities between levels of government--are more selective and more diverse, but often of profound importance to municipal development. They fall into two categories.

4.26 First, interventions seek to convert direct central/state government expenditure on urban services into transfers to municipalities. This increases the direct role of municipalities in the selection, design and execution of urban investments. Examples include the Indonesian IUIDP and Phase III of the Calcutta MDP. In both cases loans or capital grants to municipalities have to some extent replaced direct spending, in the first instance by the Ministry of Public Works, in the second by the Calcutta Metropolitan Development Authority. Similar substitutions have been attempted by the Parana and Santa Catarina State programs in progress in Brazil, and were intended by the largely abortive Fortamun in Mexico.

4.27 Second, efforts are made to rationalize the distribution of central/state government contributions to urban finance. Where central/state expenditures have been converted into transfers, some formulae and criteria have been applied to their distribution; population is invariably a major element, but differences in local resource bases or infrastructural deficits may also be taken into account. The Indonesian Urban Sector Loan also seeks to promote a review of the formulae governing the existing grants to local government, while Fortamun attempted to simplify and standardize the conditions (durations, interest rates, etc.) applied to municipal borrowing. Such reforms aim to reduce the role of political patronage and subjective professional judgment in the distribution of government funds and credits, and to make it more objectively fair and rational. They also seek to strengthen municipal government by identifying clearly the volume of financial assistance available and the conditions under which it can be obtained.

4.28 Clearly such interventions depend heavily on ability to overcome resistance within central or state government since they will offend much vested interest. They will strengthen the hand of those seeking reform, but much will depend upon timing--upon the current strength of the reformers within Government and its dependence on external aid. In the Mexican case little has so far been achieved precisely because the program has lacked a sufficiently strong and cohesive locus of support and ownership within Government.

4.29 But where Government commitment can be obtained to such objectives, the impact can be most beneficial. Municipal involvement in selection, design and execution of investments has undoubtedly improved their efficiency in the CMDA and in Indonesian programs such as kampung improvement. Moreover the rationalization of financial flows has a significant effect on municipal government. Ability to attract able staff is enhanced by involvement in capital investment. Clarifying the volume of funds available and the conditions attached to it strengthen ability to plan investment and reduces dependence upon political manoeuvre. When loans, grants and projects become entitlements, not favors, autonomy and self confidence are greatly reinforced.

Improving Provision of Credit for Capital Investment

4.30 Donor investments are being increasingly channelled through municipal loans funds. This stems primarily from policies of extending assistance from major cities to a large number of smaller municipalities. Use of such funds releases donors from direct involvement in distribution and supervision--difficult for an external agency where towns and projects are many and dispersed. But the approach is also supported by a normative view of credit as the "natural" funding of capital investment, accelerating investment by "leveraging" recurrent revenues and extending the cost to future beneficiaries. A number of the World Bank's programs actively seek to promote the borrowing habit among fiscally conservative authorities, by simplifying procedures, accompanying loans with matching grants, or substituting loans for grants or direct government spending.

4.31 The rationality of this approach has been discussed earlier. Credit programs have undoubtedly stimulated investment by large numbers of smaller authorities like 281 municipalities in Parana State, Brazil, which had previously depended upon central government agencies for such capital improvements has reached them. Between 1980 and 1984 CVDB financed 817 village council projects in Jordan; the development of basic modern infrastructure in the smallest communities is particularly impressive.

4.32 Less successful has been the attempted use of loans and intermediaries to achieve wider improvements in municipal finance and management. (An exception is the Calcutta MDP, but credit only formed part of a broader package of reform). In practice, as in the case of Parana State, the fund managers have been too preoccupied with getting projects going and funds disbursed to worry too much about cost recovery; automatic recovery of debt from transfers has diluted their concern about affordability. The growing strain of repayments on municipalities did lead to a more careful definition of debt service capacity in the second loan to the Cities and Villages Development Bank. But careful pilot research in forecasting the ability of Indonesian municipalities to service IUIDP loans has demonstrated both complexity in calculation and wide uncertainty over the basic assumptions about future revenue and expenditure trends and potentials. The underlying weakness of donor funding through loans funds is that it turns municipal borrowing from being demand led to being supply led. This is a very different

basis from that of the long and successful experiences of municipal credit in Western Europe and North America.

Providing Rewards and Penalties for Municipal Performance

4.33 A recent experiment in donor intervention has been the development of incentives for municipal performance. The inclusion of performance related elements in the grant structures of Sri Lanka and West Bengal has already been discussed earlier. Another innovation in the Sri Lanka MMP has been annual competitions in which the highest scoring urban local authorities have received a cash prize from the Prime Minister and the lowest scoring a difficult interview.

4.34 In Sri Lanka the approach has been effective in focusing attention on a wide range of management practices from collecting taxes to paying electricity bills, and from balancing accounts to mending potholes, and getting officials concerned to feel that these matter. In the Calcutta case the incentives have been less successful (except where fulfilling specific covenants) since the State Government has been reluctant to apply the sanctions of grant reduction. This highlights the problem of applying performance related criteria in a politically competitive environment. They require objective and neutral application by Central Government, which is frequently hard to guarantee--particularly once the donor has departed from the scene. Without such guarantee they can simply introduce another rogue element in central local relations which further erodes the self confidence of local government.

Training

4.35 Most donor projects in urban development now have a training component, in some a deliberate and major element, in others a ritual afterthought.

4.36 By and large bilateral technical assistance is more effective in the training field than international development bank lending. This is because it is less timebound and more flexible, because grant funding is intrinsically more suitable than loans, and because bilateral donors can forge continuing and supportive links between training institutions in the donor and recipient countries.

4.37 The importance of the institutional base for training was described earlier. In the Sri Lanka program a separate consulting and counterpart team was recruited; although leading to problems of uncertain boundaries between substantive advice and training, it has ensured that manpower development has received equal attention. A similar approach has been adopted in the Cukurova project in Turkey, though at too early a stage to judge. The large training component of the Mexican Fortamun Project achieved little, partly because it lacked the direction of a specialized team or institution.

4.38 Training, properly planned and executed, is important to municipal development in two respects. First, it develops specific skills needed by municipalities and agencies which assist them. Second, it promotes the self

confidence and self esteem of municipal staff. But municipal training is not usually the most prestigious occupation of the educational world. Donor support is important, not only in terms of funding and technical assistance, but also in giving it a high profile. In this respect overseas training and visits are a useful complement to the local program since they give municipal trainers and officials a sense of parity with other sectors.

Time Spans

4.39 Two points apply to all types of donor intervention. Both relate to the dimension of time.

4.40 The very nature of donor aided programs often gets them off to a bad start. Typically a municipal development program is heralded by a long preparatory period--as long as three years--in which consultants, working for a central agency, plan municipal investments and improvements in management and financial systems, but no money flows. From a municipal point of view the consultant input can be burdensome and inquisitorial, and the process rarely inspires a local feeling of ownership of the results. The overt benefits in terms of investment finance are slow in coming, too slow to earn electoral support. By the time the program starts in earnest, initial goodwill may well have turned into frustration and scepticism, which undermine cooperation in institutional reform.

4.41 Second, if donors want to achieve more than bricks and mortar, they should be prepared for a long and sustained involvement. Their local allies will probably need reinforcement, both financial and political, over a lengthy period if institutional reform is to be sustained. It takes time for such reform to prove its worth, time for new standards to be accepted as norms, time for municipalities to develop the confidence which comes from delivering better services and overcoming bureaucratic and popular scepticism.

V. CONCLUSION

5.01 Improving public administration is usually an uphill task. The experience tends to bequeath more Don'ts than Do's. And even when progress in municipal reform is being made, some political or economic upheaval is apt to intervene, like the ethnic crisis in Sri Lanka.

5.02 Yet effective municipal government is not an idle dream. This paper is produced in the shadow of the Chamberlain Tower, monument to the Victorian industrialist, whose three years of ruthless civic leadership reduced Birmingham's mortality by 20 percent and transformed the City's appearance and finances. There have been Chamberlains in the 1970s and 1980s--Dalans, Leners and Sadikins who have given decisive and strategic direction to their cities' development, who have been able to win public support for tough action because of the visible benefits their policies have brought.

5.03 Previous pages have stressed the variety of municipal institutions. As a result exceptions will always bedevil any attempt to define the essentials of effective urban administration. But certain features stand out as characteristics of most effective governments in growing cities:

- (a) responsibility for a hard core of functions including roads and public transport, preventive health, water supply and sanitation, land use and building control;
- (b) responsibility for both capital construction and operation and maintenance of infrastructural services;
- (c) access to buoyant taxes on income or expenditure, whether by direct levy, surcharging or tax sharing;
- (d) regular accountability to the electorate; and
- (e) a clear focus of executive authority.

5.04 These point the way for major lines of reform, where these conditions do not exist. Also important is some form of strategy for alleviating the weaknesses of small municipalities and the fragmentation of urban areas between local jurisdictions, though history, geography and politics condition the choice of strategy.

5.05 Other ingredients of municipal reform are more specific and mundane, though important to both the detailed working and the overall culture of municipal government. Examples include:

- (a) the development of objective criteria for central/state government transfers;
- (b) realistic budget estimation, particularly over revenue;
- (c) development of service standards and unit costs for use in planning, programming, budgeting and performance appraisal;

- (d) decentralization of budget management to operational levels;
- (e) improvements in contract management;
- (f) improved procedures and behavior in daily transactions with the general public; and
- (g) coherent training plans and programs for municipal staff to support all aspects of reform.

5.06 Municipal development needs persistence and patience. It requires two other qualities in large measure. One is a sense of "appropriate technology". Some elements of advanced technology are highly pertinent; computerization, for example, has much to offer in speeding and depersonalizing mass transactions with the public such as tax and user charge billing. But relatively simple processes of revenue estimation and costing are far more important to improved financial management than sophisticated accrual or capital accounting. Most of the Calcutta municipalities have carried out road and drainage investments very satisfactorily without qualified engineers; subprofessional overseers have proved adequate to the tasks. Technical assistance has to be very discriminating.

5.07 The second essential quality is that of political sensitivity. Its importance has been underlined at every stage of this paper. Municipal administration is the most politically exposed level of government. Political risk surrounds the daily application of "good" policy and practice in managing a rapidly growing city. External intervention, whether by central government or donors, cannot eliminate these risks, but it can boost or erode the confidence of municipal administrators in facing them. There has to be an acceptable trade-off between the sensitivity of tough policies and the immediacy and visibility of the benefits arising from them.