



Contents

Foreword	xvii
Preface	xix
Acknowledgments	xxi
Contributors	xxiii
Abbreviations and Acronyms	xxvii

CHAPTER



The New Vision of Local Governance and the Evolving Roles of Local Governments	1
<i>by Anwar Shah with Sana Shah</i>	
Introduction: Local Government and Local Governance	1
The Theory: Conceptual Perspectives on Local Governance and Central-Local Relations	3
The Practice: Alternative Models of Local Governance and Central-Local Relations	26
A Comparative Overview of Local Government Organization and Finance in Selected Developing Countries	33
Concluding Remarks	42
Acknowledgments	44
References	44

Africa

2

Local Government Organization and Finance: South Africa 47

by Chris Heymans

A Brief History 47

The Legal Status and Autonomy of Local Government 51

Composition of Revenues and Expenditures: General Patterns 55

The Structure and Administration of Local Government 59

Local Government Expenditure Responsibilities 64

Local Governments' Own Taxes and Charges 67

Intergovernmental Transfers 73

Local Government Borrowing 80

Assessment 83

Lessons for Developing Countries 87

Notes 90

References 91

3

Local Government Organization and Finance: Uganda 93

by Jesper Steffensen

Background 94

Legal Status and Autonomy 94

Structure of Local Governments 98

Brief Overview of Revenue and Expenditures 101

Local Government Expenditures 104

Local Government Revenues 109

Financial Management Capacity 128

Overall Assessment and Lessons 129

Notes 133

References 134

Asia

4

Local Government Organization and Finance: China 137

by Baoyun Qiao and Anwar Shah

Local Government Expenditure Responsibilities 142

Local Revenues	149
Intergovernmental Fiscal Transfers	155
Local Government Borrowing	160
Local Government Administration	162
An Impressionistic View of Local Government Finances in China	163
Lessons for Developing Countries	165
Notes	166
References	166

5

Local Government Organization and Finance: Urban India

by Om Prakash Mathur

Expenditure Domain of Municipalities	172
Revenue Base of Municipalities	179
Center-State-Municipal Fiscal Relations	181
Borrowing by Municipal Governments	190
The Finances of Municipalities: An Assessment	195
Concluding Remarks	201
Notes	201
References	203

6

Local Government Organization and Finance: Rural India

by V. N. Alok

Evolution of Rural Local Government	205
The Legal Framework	208
Functional Domain	211
Own-Source Taxes	213
Borrowing	219
Intergovernmental Fiscal Transfers	219
National Finance Commission	220
Centrally Sponsored Schemes	224
Fiscal Autonomy versus Dependency	225
Issues and Lessons	227
Notes	229
References	230



7 Local Government Organization and Finance: Indonesia 233

by Sebastian Eckardt and Anwar Shah

A Brief History of Local Government in Indonesia	233
Current System of Local Governments: Legal, Fiscal, and Political Overview	235
Local Government Expenditure Responsibilities	240
Local Government Own-Source Taxes and Charges	246
Shared Taxes and Revenues	249
Intergovernmental Fiscal Transfers	250
Local Government Borrowing	260
Local Government Administration	262
An Overall Assessment of Local Government Finances and Organization Reforms	265
Lessons for Developing Countries	268
Notes	271
References	273

Europe and Central Asia



8 Local Government Organization and Finance: Kazakhstan 275

by Meruert Makhmutova

Local Government Structure in the New Republic	276
Local Government Expenditure Responsibilities	281
Local Governments' Own Taxes and Charges	283
Shared Taxes	285
Intergovernmental Fiscal Transfers	286
Local Government Borrowing	288
Local Government Administration	289
An Overall Assessment of Local Government Finances	290
Lessons for Other Developing Countries	291
Annex 8A: Oblast Budget Expenditures	294
Annex 8B: Rayon Budget Expenditures	296
Annex 8C: Oblast Budget Tax and Nontax Revenues	299

Annex 8D: Rayon Budget Tax and Nontax Revenues	300
Notes	302
References	302

9

Local Government Organization and Finance:

Poland 303

by Pawel Swianiewicz

Local Government System	304
Local Government Expenditure Responsibilities	307
Local Governments' Own Taxes and Charges	312
Shared Taxes	322
Grants to Local Governments	324
Local Government Borrowing	336
Local Government Administration	340
Overall Assessment and Lessons for Other Countries	340
Notes	343
References	344

Latin America and the Caribbean

10

Local Government Organization and Finance:

Argentina 347

by Miguel Angel Asensio

An Overview	349
Constitutional Status and Institutional Aspects	351
Spending Responsibilities of Local Governments	352
Local Governments' Taxation and User Charges	356
Tax Sharing with Local Governments	361
Other Transfers to Local Governments	364
Fiscal Imbalances and Relative Financial Autonomy	366
Local Government Borrowing	368
Local Government Administration	371
Overall Assessment of Local Finances	373
Lessons for Developing Countries	374
Notes	375
References	377



11 Local Government Organization and Finance:

Brazil 381

by José Roberto Rodrigues Afonso and Erika Amorim Araújo

Local Government Expenditure Responsibilities	385
Taxes and Charges Levied by Local Governments	390
Local Revenues from Other Governments	393
Federative Imbalance	400
Local Government Borrowing	404
Local Government Administration: Personnel Spending	409
Local Government Accountability to Citizens	410
Lessons for Developing Countries	412
Notes	415
References	416



12 Local Government Organization and Finance:

Chile 419

by Leonardo Letelier S.

Local Governments' Responsibilities	421
Local Governments' Taxes and Charges	423
Structure of Subnational Government Financing	424
The Case of Regions and Provinces	427
The Case of Municipalities	431
Lessons to Be Learned from the Chilean Case	443
Conclusions	445
Notes	446
References	446

Index 449

BOXES

- 1.1 Local and Metropolitan Finance: Options for Own-Source Revenues 14
- 3.1 The Poverty Action Fund, the Heavily Indebted Poor Countries Initiative, and the Fiscal Decentralization Strategy 117
- 3.2 Fiscal Decentralization Strategy: Recurrent Transfer Scheme 118

3.3	Main Features of Local Development Grants under the Local Government Development Program	122
6.1	Classification of Functions Listed in the 11th Schedule	209
12.1	Municipal Functions	422
12.2	The Common Municipal Fund	432

FIGURES

1.1	A Comparative Perspective on Local Government Share of Consolidated Public Expenditures	34
1.2	Local Expenditures as a Share of National GDP	35
1.3	Composition of Operating Revenues for Local Authorities	38
1.4	Composition of Local Tax Revenues	38
2.1	Schematic Portrayal of Intergovernmental Relations in South Africa	52
3.1	Local Council Elections	99
3.2	Development in Local Government Expenditures	102
3.3	Composition of Total Local Government Revenue	103
3.4	Sector Distribution of Local Government Expenditures, Budget 2002/03	104
4.1	Structure of Government in China, 2003	139
7.1	Local Government Expenditures and Revenues, FY 1997–FY 2003	237
7.2	Imbalanced Decentralization: Subnational Shares in Total Revenues and Expenditures, FY 2003	238
7.3	Subnational Revenue Sources, FY 2003	239
7.4	Lorenz Curves for Per Capita Revenues, FY 2003	258
7.5	DAU and Fiscal Capacity, FY 2003	259
7.6	Subnational Government Borrowing, FY 1983–FY 2004	262
7.7	Composition of Subnational Debt, FY 1978–FY 2004	262
7.8	Typical Organizational Structure of Subnational Government	264
8.1	Structure of Public Administration in Kazakhstan	281
9.1	Budget Spending by Tier of Government, 2004	308
9.2	Local Government Investment, 1991–2004	311
9.3	Typology of Local Tax Policies	318
9.4	The Dynamics of Local Government Debt, 1995–2004	338
12.1	Government's Decentralized Funds in Chile	426

12.2	Municipal Contribution to the FCM versus Grant Received	433
12.3	Share of FCM in Municipal Income versus Net of FCM Municipal Income Per Capita	434

TABLES

1.1	Representative Assignment of Expenditure Responsibilities	8
1.2	Assignment of Local Public Services to Municipal and Regional or Metropolitan Governments	10
1.3	A Representative Assignment of Taxing Powers	12
1.4	Principles and Better Practices in Grant Design	15
1.5	Key Elements of Citizen-Centered Governance	23
1.6	Size Distribution of Municipal Governments in Developing Countries	36
1.7	Average Population per Local Authority in Developing Countries	37
1.8	Intergovernmental Transfers as a Share of Local Government Revenues in Developing Countries, 2003	39
1.9	Role of a Local Government under the New Vision of Local Governance	43
2.1	Municipal Budget Trends, FY 2002/03–FY 2005/06	56
2.2	Revenues from Property Rates and RSC Levies in Different Municipalities, FY 2002/03–FY 2005/06	59
2.3	Local Government Functions	65
2.4	Elements of Local Revenue	69
2.5	Direct Transfers as a Share of Total Municipal Expenditure, FY 2002/03–FY 2005/06	74
2.6	National Transfers to Local Government, FY 2002/03–FY 2008/09	76
2.7	The Equitable Share: Purpose and Allocations, FY 2003/04	79
2.8	Distribution of National Direct Transfers to Categories of Municipalities, FY 2003/04	81
2.9	Borrowing by Category of Municipality	83
3.1	Functional Assignments for Local Services in Uganda	105
3.2	Local Government Aggregate Own-Source Revenues	110
3.3	Tax Autonomy and Control	112
3.4	Developments in Grants and Composition	115
3.5	Composition of the Development Grants	120

4.1	Population, Area, and Per Capita GDP across Provinces, 2003	138	
4.2	Expenditure Responsibilities of Various Orders of Government	143	
4.3	Expenditure Shares of Various Orders of Government, 2003	144	
4.4	Local Responsibilities and Relative Importance, 2003	148	
4.5	Government Personnel of Various Levels of Government, 2003	149	
4.6	Revenue Shares of Various Orders of Government, 2003	149	
4.7	Bases, Rates, and Relative Importance of Local Taxes and Charges	151	
4.8	Bases, Rates, Sharing Arrangements, and Percentages of Total Local Government Revenues for Shared Taxes	154	
4.9	Intergovernmental Transfers, 2003	156	
4.10	Transfers as a Percentage of Total Expenditures of Levels of Government, 2003	159	
5.1	Numbers of Municipalities and Their Populations	172	
5.2	Linkage of Schedule 12 Functions with the State List and Concurrent List	174	
5.3	Linkage of Schedule 12 Functions with Municipal Functions Listed in State Laws	175	
5.4	Per Capita Revenue Expenditure on Core Services	180	
5.5	Revenue Powers of Municipalities across Major States	182	
5.6	Criteria Used by the Central Finance Commission for Determining the Allocation of Grants to States for Urban Local Bodies	189	
5.7	Share of Municipalities in State's Resources as Recommended by the First State Finance Commission	191	
5.8	Key Features of Tax-Free Municipal Bonds	194	
5.9	Revenue Significance of Municipalities	196	
5.10	Per Capita Revenue Expenditure	197	
5.11	Per Capita Expenditure on Salaries and Wages	198	
5.12	Cost of Salaries and Wages Exceeds Own-Source Revenue Income, 2001/02	199	
5.13	Operations and Maintenance Expenditure	200	
6.1	Number of Rural Governments by State and Union Territory, April 1, 2005	210	
6.2	Current Progress on Activity Mapping	213	
6.3	Per Capita Expenditure in PRIs (All Tiers)	214	
6.4	Revenue Power of Rural Governments in States at Each Tier	215	

6.5	Own-Source Revenue of PRIs, All Tiers	217	
6.6	Per Capita Own-Source Revenue of PRIs, All Tiers		218
6.7	Contribution of Own-Source Revenue in Total Expenditure of PRIs, All Tiers	218	
6.8	Significance of PRIs' Own-Source Revenue	220	
6.9	SFC Recommendations for Share in State Resources		221
6.10	Criteria Adopted by National Finance Commissions for Distribution among Themselves of Grants to States for PRIs	224	
6.11	Schemes of the Union Ministries That Primarily Deal with the Functions of PRIs	225	
7.1	Obligatory Functions of Subnational Governments under Laws 22/1999 and 32/2004	240	
7.2	Distribution of Functions across Levels of Government		242
7.3	Expenditures by Level of Government, FY 2002	245	
7.4	Local Government Expenditure Composition, FY 2001/02		246
7.5	Subnational Taxes	247	
7.6	Arrangements for Tax and Revenue Sharing under Law 33/2004	250	
7.7	DAK Allocations by Sector, FY 2005	256	
7.8	Fiscal Disparities across Local Governments, FY 2003		258
7.9	Distribution of Civil Service Employment across Levels of Government before and after Decentralization		263
7.10	Responsibilities in Civil Service Management	265	
8.1	Administrative and Territorial Units in Kazakhstan, January 1, 2006	278	
8.2	Central and Local Budget Expenditures, 2002–05		283
8.3	Structure of Local Budget Revenue	284	
8.4	Tax Bases and Rates for Various Taxes	285	
8.5	Withdrawals to and Subventions Received from the National Budget, by Oblast	287	
9.1	Territorial Division of Poland, Average Sizes and Ranges		305
9.2	Role of Local Government Finance in the National Economy	309	
9.3	Structure of Revenues in Different Types of Local Governments, 2004	315	
9.4	Revenues from Physical Persons and Legal Entities, by Size of Local Government, 2000	316	

9.5	Results of Reductions, Exemptions, and Releases from Property Tax, by Size of Local Government, 2001	317
9.6	Shares of Local Governments in Revenues from Personal and Corporate Income Taxes	323
9.7	Structure of the General-Purpose Grant, 2004	327
10.1	Number of Municipalities and Communes, December 2003	350
10.2	Distribution of Local Governments by Size	351
10.3	Local Government Revenue and Expenditure: Budgetary Performance, 2001	353
10.4	Expenditure Assignment in Local Governments, 1999	354
10.5	Local Government Spending by Main Categories, 1999	355
10.6	Functional Profile of Local Governments	356
10.7	Local Government Revenue Structure, 2001	357
10.8	Main Taxes, Charges, and Fines of Local Governments, 1997	358
10.9	Assignment of Taxing Powers to Argentine Municipalities	360
10.10	Structural Characteristics of Some Local Taxes and Rates	361
10.11	Revenue Sharing with Local Governments	363
10.12	Significance of Transfers in Local Governments' Finances	365
10.13	Imbalances and Financial Autonomy in Argentine Local Governments	367
10.14	Financial Autonomy and Vertical Imbalance of Local Governments	368
10.15	Provincial Constitutional Framework for Local Borrowing	371
11.1	Municipalities by Group of Inhabitants, 2005	383
11.2	Municipal Revenues and Expenditures, 2004	385
11.3	Local Expenditure Responsibilities	387
11.4	Municipal Outlays by Function of Government, 2004	388
11.5	Municipal Tax Burden, 2005	391
11.6	Revenue Sharing and Transfers to Municipalities, 2005	395
11.7	Federative Division of the National Tax Burden, 2005	397
12.1	Decentralized Public Funds, 1999–2003	425
12.2	Decentralized Public Investment Funds: Primary Distributive Criteria	428
12.3	Regionally Decided Public Investment Funds, 1999–2003	431
12.4	FCM Resources, 1999–2003	432
12.5	Delegated Functions, 1999–2003	436
12.6	Social Programs Allocated by the CAS-II Card, 1999–2003	442