Financing Metropolitan Governments *in* Developing Countries

Edited by

Roy W. Bahl, Johannes F. Linn, and Deborah L. Wetzel

Financing Metropolitan Governments *in* Developing Countries

Edited by

Roy W. Bahl
Johannes F. Linn
Deborah L. Wetzel

Lincoln Institute of Land Policy
Cambridge, Massachusetts

Library of Congress Cataloging-in-Publication Data

Financing metropolitan governments in developing countries / edited by Roy W. Bahl, Johannes F. Linn, Deborah L. Wetzel.
pages cm
Includes index.
ISBN 978-1-55844-254-2 (alk. paper)
1. Municipal finance—Developing countries. 2. Finance, Public—Developing countries. 3. Local taxation—Developing countries. 4. Municipal government—Developing countries. 5. Municipal finance—Developing countries—Case studies. 6. Finance, Public—Developing countries—Case studies. 7. Local taxation—Developing countries—Case studies. 8. Municipal government—Developing countries—Case studies. I. Bahl, Roy W. II. Linn, Johannes F. III. Wetzel, Deborah L.
HJ9695.F663 2013
352.4'216091724—dc23 2013001063

Designed by Westchester Publishing Services

Composed in 10.5/13 Minion, by Westchester Publishing Services in Danbury, Connecticut.
Printed and bound by Puritan Press Inc., in Hollis, New Hampshire.

The paper is Rolland Enviro100, an acid-free, 100 percent PCW recycled sheet.

MANUFACTURED IN THE UNITED STATES OF AMERICA

Contents

Metropolitan Cities in the National Fiscal and Institutional Structure

3

PAUL SMOKE

An important yet neglected issue in the study of urban public finance in developing countries is how urban and metropolitan governments are situated in the broader national fiscal, institutional, and political framework. The details and dynamics of this framework affect the ability of urban governments to operate with legitimacy and to perform effectively. This is particularly critical at a time when urban governments are being called on to play greater roles in promoting economic development, addressing environmental problems, and dealing with other growing challenges (see, e.g., United Cities and Local Governments (2010), Birch and Wachter 2011).

The multifaceted national framework for urban government has likely been underexplored because its diverse, complex, and evolving nature creates challenges for both single-country and comparative analysis. Factors that affect urban performance, such as the number of government levels and their respective functions, are shaped by context-specific historical dynamics that may limit or complicate policy reform options.

Despite these challenges, there is potential value in broad-based assessment of national frameworks. Much fiscal analysis of urban governments has been too centered on normative diagnostics that are limited in scope and inadequately consider key factors that can affect fiscal performance. The best intergovernmental fiscal systems, for example, are unlikely to be effective without appropriate institutional structures and accountability mechanisms in place, and politics always influence reforms.

Normative principles of fiscal federalism, local democracy, local accountability, and other aspects of intergovernmental frameworks are well known and have

Research assistance was provided by Dave Algoso, Gundula Loffler, Jenna Magee, and Alberto Orozco-Ochoa. Particularly valuable comments were provided by Roy Bahl, Blane Lewis, Vito Tanzi, Philip van Ryneveld, Khaled Amin, and David Gomez-Alvarez.

received considerable attention, including elsewhere in this volume. Rather than exhaustively cover these principles or present a comprehensive diagnostic, this chapter provides a broad synopsis of fiscal and institutional structures and intergovernmental relationships that do or could affect the ability of local governments to meet critical objectives.[1] To illustrate variations and how they may influence fiscal performance, a selective set of countries is considered, with reference to additional experiences where relevant.

The next section outlines basic facts about the countries being examined. This is followed by a review of their overarching institutional, fiscal, and governance frameworks and other aspects of their intergovernmental systems. The chapter concludes with a summary of the case for better understanding national frameworks as part of the process of selecting pragmatic policy choices to promote local and metropolitan fiscal performance.

The Countries and Some Basic Facts

The countries examined in this chapter are not scientifically representative, but they do include an array of developing and middle-income countries located in Africa, Asia, Latin America, and the Middle East (table 3.1).[2] The countries range from primarily rural (Cambodia, Uganda) to primarily urban (Brazil, Mexico, South Africa), with several countries in between (Egypt, Ghana, India, Indonesia, Philippines).[3] Some of the less urbanized countries (Cambodia, Uganda, Ghana) are urbanizing rapidly.

India has 46 urban areas with more than 1 million inhabitants, while Brazil, Mexico, Indonesia, and South Africa have 21, 12, 8, and 7, respectively. Smaller countries (Cambodia, Ghana, Uganda) have only one or two urban areas of this size. Even

[1] A number of broad-based or comparative references include Ahmad and Tanzi (2002), Cheema and Rondinelli (2007), Connerly, Eaton, and Smoke (2010), Slack (2007; 2010), Slack and Chattopadhyay (2009), Steytler (2005), and Wilson (2011).

[2] A number of comparative (global or regional) references were used to derive information for multiple countries reviewed here, including Burki, Perry, and Dillinger (1999), Crawford and Hartmann (2008), Ichimura and Bahl (2009), Martinez-Vazquez and Vaillancourt (2011), Ndegwa and Levy (2003), Peterson and Annez (2007), Sahasranaman (2009), Smoke, Gomez, and Peterson (2006), Stren and Cameron (2005), United Cities and Local Governments (2010), World Bank (2005), and Wunsch and Olowu (2003).

[3] Information on Cambodia is drawn largely from the review in Smoke and Morrison (2011) and the website of the National Committee for Subnational Democratic Development (http://www.ncdd.gov.kh). Information on Uganda is drawn largely from Ahmad, Brosio, and Gonzalez (2006), Smoke, Muhumuza, and Ssewankambo (2011), and the Uganda Local Government Finance Commission website (http:/www.lgfc.go.ug). Information on Brazil is drawn largely from Alfonso and Araujo (2006), de Mello (2007), Rezende and Garson (2006), and Souza (2003). Information on Mexico is drawn largely from Grindle (2007), Guigale (2000), Moreno (2003), Revilla (2012), and informal sources provided in other notes. Information on South Africa is drawn largely from Bahl and Smoke (2003), Republic of South Africa (2008), van Ryneveld (2007), and the National Treasury (Intergovernmental Fiscal Affairs Division) and Department of Cooperative Governance and Traditional Affairs (formerly the Department of Provincial and Local Government) websites (http://www.treasury.gov.za/publications/igfr/default.aspx and http://www.cogta.gov.za). Information on Egypt is drawn largely from Algoso and Magee (2011) and Ebel and Amin (2006). Information on Ghana is drawn from Awortwi (2010), Hoffman and Metzroth (2010), and Kuusi (2009). Information on India is drawn largely from Garg (2007), Government of India (2009), Rao and Bird (2010), and the websites of the India Finance Commission (http://www.fincomindia.nic.in/), the India Planning Commission (http://planningcommission.nic.in/), the Union Public Service Commission (http://www.upsc.gov.in/), and National Institute of Public Finance and Policy (http://www.nipfp.org.in/). Information on Indonesia is drawn largely from Alm, Martinez-Vazquez, and Indrawati (2004), World Bank (2005), Republic of Indonesia, Ministry of Finance (2011), and Indonesian Decentralization Support Facility (2012). Information on the Philippines is drawn largely from Manasan (2004), Nasehi and Rangwala (2011), World Bank (2005), and Yilmaz and Venugopa (2010).

TABLE 3.1
Basic urban and institutional profiles

Country	Region	Total population, in millions (percent urban), 2010	Urban growth rate, 2005–2010	No. urban areas with populations >1 million, 2010	Type of national government	Political competition
Brazil	Latin America	198.9 (86.5)	1.52	21	Federal	Multiparty competitive
Cambodia	Asia (Southeast)	15.3 (20.1)	3.03	1	Unitary	Multiparty; one dominant
Egypt	Middle East (North Africa)	79.5 (43.4)	1.99	2	Unitary	Single party until 2011 (disbanded); reforms under way
Ghana	Africa (West)	24.9 (51.5)	3.59	2	Unitary	Multiparty; recent historic peaceful electoral transition
India	Asia (South)	1220.1 (30)	2.31	46	Federal	Multiparty competitive
Indonesia	Asia (Southeast)	239.6 (44.3)	1.74	8	Unitary	Multiparty competitive after long one-party dominance
Mexico	Latin America	110.3 (77.8)	1.38	12	Federal	Multiparty competitive
Philippines	Asia (Southeast)	93 (48.9)	2.14	2	Unitary	Multiparty competitive
South Africa	Africa (Southern)	49.3 (61.7)	1.78	7	Unitary	Multiparty; one dominant
Uganda	Africa (East)	34 (13.3)	4.43	1	Unitary	Newly multiparty; one dominant

SOURCE: All urban data are taken from the U.N. Department for Social and Economic Affairs (2009), although recent sources suggest that these figures may understate urban growth in Indonesia. Other data are from country-specific sources in notes 2 and 3.

some larger countries only have a few, for example, two each in Egypt and the Philippines.

Most of the countries are unitary systems, but Brazil, India, and Mexico are federal. All of the countries are at least nominally multiparty democracies, but some have competitive elections, while single parties dominate others (Cambodia, South Africa, Uganda), and one (Egypt) is undergoing a dramatic political and institutional transition.

These country characteristics are often indicative, although not neatly deterministic, of how subnational governments are treated in the intergovernmental system. Intergovernmental relations differ in unitary systems relative to federal systems, although not always in obvious ways. Strong local governments can be established in the former, and local governments can be constrained by state governments in the latter.

Larger urban governments tend to have more independence through formal design or, more typically, by virtue of their greater size, functions, and revenue capacity. That does not, however, necessarily protect them from higher-level interference and problematic intrajurisdictional dynamics. Such relationships can be complicated even in federal systems where states have strong constitutional authority or where different political parties control national/state (provincial) and urban/metropolitan governments.

The Overarching Policy Framework

This section reviews the constitutional and legal framework for subnational government, noting (if known) whether urban or metropolitan areas are differentially treated. The focus is on basic institutional structures and major legal/policy provisions.

Intergovernmental Institutional Structure

All countries considered here have multiple subnational levels (table 3.2), ranging from two (Brazil, Mexico, South Africa) to five (Egypt, Uganda). Some countries have semiautonomous local governments that substantially answer to their constituents (devolution), such as South Africa. In others, subnational jurisdictions have greater accountability to the central government (deconcentration), as in Ghana, where one level (the region) is purely administrative.

The treatment of urban areas varies across countries. It is not uncommon to adopt a special designation for the capital city (Brazil, Cambodia, India, Indonesia, Mexico, Philippines, and Uganda). In some cases, the capital is legally equivalent to a higher government tier. For example, the city of Kampala has the legal status of a district, and Jakarta functions much like a provincial government. Mexico City has characteristics of both a state and a municipality, but it has a unique legal status. Cairo has no special status, but it is governed differently than other urban areas in Egypt.

There are also other asymmetries in the treatment of urban governments. In Cambodia, the three largest municipalities after the capital Phnom Penh have provincial status, and metropolitan divisions in Ghana (districts) have the same

TABLE 3.2
Levels of government and administration

Country	Levels
Brazil (two levels)	• States (26) and Federal district (Brasilia) • Municipalities (5,564)
Cambodia (three levels)	• Provinces (23, including 3 municipal) and capital • Districts (159) and municipalities (26) • Communes and *sangkat* (municipal communes) (1,621) divided into villages
Egypt (five levels)	• Governorates (29) • *Markaz* (regions) and city administrations (232) • Districts (smallest entity in urban governorates) • Villages (in mixed urban/rural governorates) • No special provisions for the capital, but new legislation planned
Ghana (three levels)	• Regions (administrative) (10) • Districts (170), including 40 municipal and 6 metropolitan districts • Town/area councils/others under districts (>16,000)
India (three levels)	• States (28) • Union territories (7), including the federal district • Local bodies—urban local bodies: municipal corporations (138), municipal councils (1,595), town councils (2,108); rural local bodies (*panchayati raj*): *zilla* (593), *samities* (6,087), *gram*/village (239,432)
Indonesia (three levels)	• Provinces (33), special regions (2), and capital city • Local governments: *kota* (cities, 98) and *kabupaten* (districts, 410) • *Desa* (villages)—very limited role (69,249)
Mexico (two levels)	• States (31) and the federal district (Mexico City) • Municipalities (2,456)
Philippines (four levels)	• Provinces (79) • Cities (112) • Municipalities (1,496) • *Barangays*/villages (41,944)
South Africa (two levels)	• Provinces (9) • Municipalities: metropolitan (8), districts (44), and local (231); the latter are "wall to wall" within districts
Uganda (five levels with one primary)	• Districts and the city of Kampala (112) (primary) • Counties (162) plus 22 municipal councils and 5 city divisions • Subcounties (1,147 plus 64 municipal divisions and 165 town councils) • Parishes (7,771 including city wards) • Villages (66,579)

SOURCE: Urban data are taken from U.N. Department for Social and Economic Affairs (2009). Other data from country-specific sources summarized in notes 2 and 3.

status as rural district governments. In Indonesia, cities (*kota*) are legally identical to districts (*kabupaten*), and South Africa has three categories of municipal government: metropolitan or metro areas, districts, and local areas.

Decentralization and Subnational Government Policy

Countries take different approaches to decentralization and subnational government policy (table 3.3). Egypt is the only country here that has not formally empowered local governments, although minor decentralization was piloted prior to the fall of President Mubarak in 2011, and the new constitution (2012) suggests that decentralization is likely to be important in the future, but many details need to be developed in future laws.

Devolution tends to be stronger in federal countries (Brazil, India, Mexico) than in the unitary countries, but the former usually give states considerable control over local (and urban) governments. Brazil empowers and finances municipalities

TABLE 3.3
Decentralization and subnational government policy

Country	Policy
Brazil	Strong devolution, with three levels of government and considerable relative independence of third tier from second tier.
Cambodia	Long centralized system with minor decentralization to communes (2001). Reforms have been mandated for provinces, municipalities, and districts (2008) but not fully implemented.
Egypt	Highly centralized system with limited experimentation with decentralization. System will change after uprising of January 2011, with some form of decentralization likely.
Ghana	Deconcentration with nominal devolution. Lack of resources at subnational levels severely constrains district autonomy.
India	Federal system with strong states. Lower tiers are dependent on states, but larger urban areas have more independence. There is some policy discussion about pushing states to empower local tiers more significantly.
Indonesia	Focus on devolution to cities and districts in 2001, replacing former emphasis on deconcentration to provinces. More recent reforms have marginally increased the role of higher levels.
Mexico	Federal system with strong states. Lower tiers are dependent on states, but there are new efforts to empower municipalities and promote cooperation in metropolitan areas.
Philippines	Focus on devolution to subprovincial units since early 1990s, but national agencies and provinces still play a significant role.
South Africa	National/provincial/local framed as three distinct but interdependent (not hierarchical) spheres of government. Municipalities (especially metropolitan) are more independent than provinces. Recently, powers of metropolitan and large urban governments have increased, and there has been some discussion of restructuring weak municipalities.
Uganda	Focus on decentralization of responsibilities to devolved district councils with four tiers below, but considerable recentralization in recent years.

SOURCE: Information from country-specific sources summarized in notes 2 and 3.

directly, although over time the federal government has increased constraints on municipalities.

A number of unitary states (Indonesia, South Africa, Philippines, Uganda) give considerable powers to subnational governments, sometimes differentially to certain levels or urban jurisdictions. Indonesia and the Philippines empower the local tier more than the intermediate (provincial) tier. Uganda has no provincial or state governments (due to geographic ethnic identification and association with traditional kingdoms that modernizers wanted to marginalize), and Ghana has administrative regions without elected councils. South Africa does not use the terms *tier* or *level* in its framework; it has three distinct, nonhierarchical *spheres* (national, provincial, municipal).

Another noteworthy issue is how decentralization is rolled out and sequenced.[4] Reforms often focus simultaneously on all levels, or first on larger urban areas, but there are exceptions. In Cambodia, for example, decentralization started at lower rural levels, not in urban areas (due to strong rural support for the ruling party). Only more recently have higher levels been included, including conferring special status on Phnom Penh.

Decentralization policy may change over time. Uganda has rolled back key local (including urban) powers, while South Africa has increased metropolitan powers through sectoral laws, including in transport and housing (and is also considering consolidation of small/low capacity municipalities). The Indian and Mexican governments have proposed or taken steps to increase lower-level powers because states have not. Such shifts generally result from evolving political dynamics and/or performance concerns (see Eaton, Kaiser, and Smoke 2011).

Formal Basis for Decentralization

Countries establish and define subnational governments through constitutional, legal, or administrative provisions (table 3.4), with the former generally considered stronger and more durable. In the Philippines and South Africa, reform was initiated with constitutional provisions followed by clarifying laws. In Ghana, Indonesia, and Uganda, laws established the framework, which was then at least partly codified in a constitutional amendment or new constitution. The recently replaced Egyptian Constitution provided for local administration, with subsequent laws both supporting and limiting local powers. The 2012 constitution outlines the broad contours of a decentralized system but leaves the details to further legislation. Cambodia is the only country here that has no constitutional basis for decentralization (except to establish levels of administration).

Constitutional and legal provisions are usually general, such that additional legal or administrative action is required. In Cambodia and Indonesia, follow-up has been insufficient to establish functional clarity. In some unitary systems and under certain political conditions (Philippines and Uganda), it has been possible to ignore or rescind, formally or informally, constitutional and legal provisions without a strong challenge (see Smoke, Muhumuza, and Ssewankambo 2011; World Bank

[4] The issue of sequencing is reviewed in Smoke (2010).

TABLE 3.4
Decentralization frameworks

Country	Framework
Brazil (constitutional and legal)	The constitution (1988) gives considerable powers to state and municipal governments. The Fiscal Responsibility Law (2000) outlines additional regulation and oversight, and various specific laws apply.
Cambodia (legal and administrative)	The Law on Commune/*Sangkat* Administrative Management (2001) and Election Law (2001) established elected commune councils. The Law on Administrative Management of Capital, Provinces, Municipalities, Districts and *Khan* (2008) extends powers to other levels. Details are to be provided in laws or decrees.
Egypt (legal and administrative)	Law 124 (1960) created a hierarchy of local councils. Law 52 (1975) increased powers of local elected councils. Law 43 (1979) removed some powers. A new system is outlined in general terms under the 2012 constitution.
Ghana (legal basis/ constitutional codification)	The Local Government Law (1988) established a new system with district assemblies as the key institutions. The constitution (1992) further codified this system. The Local Government Act (1993) assigned general responsibilities to districts.
India (constitutional and legal)	The federal system is outlined in the 1949 constitution; some amendments, including the 73rd and 74th (1992), strengthen substate institutions and governance, but these are subject to state government legislation and regulation.
Indonesia (legal basis/constitutional amendment)	Law 22 on Regional Government (1999) amended as Law 32 (2004), Law 25 on Fiscal Balance (1999) amended as Law 33 (2004), and Law 34 on Regional Taxes/Levies (2000) amended as Law 28 (2009) provide the basic framework. A constitutional amendment (2000) strengthens the basis for decentralization.
Mexico (constitutional and legal)	The constitution (1917) lays the foundation for state and municipal governments, with additional details outlined in the Law on Fiscal Coordination (1980) and amendments. New legislation is intended to strengthen municipalities.
Philippines (legal and constitutional)	The constitution (1987) provides for local government autonomy. The Local Government Code (1991) and various laws (pre- and post-Marcos) define aspects of the system.
South Africa (constitutional and legal)	The constitution (1996) and the Municipal Structures Act (1998) established three spheres of government and defined functions/powers. Additional laws include the Municipal Systems Act (2000), Municipal Finance Management Act (2003), Municipal Fiscal Powers and Functions Act (2007), and some sectoral legislation, including the 2009 National Land Transport Act.
Uganda (constitutional and legal)	The Local Governments (Resistance Councils) Statute (1993) reinforced political authority of existing local councils. The constitution (1995) outlined functions and finances of local councils. The Local Government Act (1997) defined expenditure assignments in more detail.

SOURCE: Information from country-specific sources summarized in notes 2 and 3.

2005). States in federal systems (India and Mexico) tend to retain substantial control over lower tiers. In Mexico, the central government recently acted to empower municipalities. In India, the 13th National Finance Commission increased resources for local bodies (although still channeled through the states), and there is talk of further pro-local-government reform.

Finally, even if they establish urban and metropolitan governments, few constitutional and legal provisions differentially empower them with specificity. For example, Article 197 of the Ugandan Constitution states: "Urban authorities shall have autonomy over their financial and planning matters in relation to the district councils as Parliament may by law provide." The Ghana Local Government Law (1988) provides for metropolitan and municipal districts where the population meets certain thresholds but without asymmetric empowerment. South Africa, on the other hand, allows for differentially empowered metropolitan municipalities. Similarly, the Indian framework enables creation of municipal corporations with more robust powers (subject to state variation) in large urban areas. National laws may provide for overarching governance structures where there is jurisdictional fragmentation, for example, the Metropolitan Manila Development Authority.[5]

Fiscal Powers and Functions

Any level of government, urban or otherwise, is assigned fiscal powers (functions, revenues, transfers, and borrowing authority). Some frameworks are specific about and differentially empower urban areas, but more often detailed assignments are left to subsequent laws and regulations. Where there is lack of clarity, service delivery gaps, redundancies, or inefficiencies are more likely. Problems can arise in metropolitan areas where functions are fragmented across separate jurisdictions.

Distributing Functions Among Levels of Government

There is considerable variation in functional assignments and public spending shares across levels (table 3.5). Brazil has extensive cosharing, with only limited exclusive municipal assignments. In other cases, subnational levels receive more functions than the center, including Indonesia, the Philippines, and Uganda. In Cambodia and Ghana, functions remain more centralized or are subject to strong central control and/or require follow-up legislation. In Egypt, most functions are centralized, and subnational actors largely follow national directives. South Africa splits major functional responsibilities between levels: provinces have more responsibility for education, health, and social welfare, while municipalities provide roads and basic utilities, although there is considerable concurrency that complicates service delivery.[6] In federal countries, such as India and Mexico, state governments have discretion over functional assignment to municipal and rural governments as well as how and at what pace to devolve.

Formal provisions assigning differential functions to urban/metropolitan areas appear uncommon, with a few exceptions. South Africa provides for differential

[5] See the discussion of the Metropolitan Manila Development Authority in Nasehi and Rangwala (2011).
[6] For recent thinking on this, see Steytler and Fessha (2011).

TABLE 3.5

Local functional assignments and expenditure shares

Country	Subnational functions	Subnational share of total expenditures*
Brazil	Most functions are shared. Preschool and primary education, preventive health care, and historic/cultural preservation are primarily local. Only public transport (inner city) and land use are purely local.	26.3% (2007) by municipal governments.
Cambodia	Provinces dominate subnational service delivery but remain under national line ministries until 2009 legislation is further defined and implemented. Communes have discretion but few mandatory functions and resources. Legal provisions are in place for eventual transfer of more functions.	Around 20% overall (2007), but only 2–3% at the commune level, with the rest mostly deconcentrated until new reforms occur.
Egypt	Major public services (education, health, housing, etc.) are primarily delivered by national line ministry departments/agencies at the governorate level. Funding is available for limited local functions through the Ministry of Local Development.	11.2% (2007) by all subnational levels, mostly deconcentrated expenditures made as per central directives.
Ghana	National ministries provide education, health, and agriculture services. Districts provide water/electricity and have authority for other sectors but lack resources.	10% (2006) local, including metropolitan areas and districts.
India	The constitution (12th Schedule) allows 18 municipal functions, but each state determines specifics. States differentiate (variably) in practice, generally favoring large urban areas. Around 60% of local government spending is on "core functions" (mostly urban), including water, street lighting, sanitation, and roads.	Around 66% subnational (2004), nearly evenly divided between states and lower tiers, with higher expenditures in urban areas.
Indonesia	Obligatory local functions include health, education, environment, and infrastructure. Provinces were originally assigned coordination and gap-filling roles. Law 32/2004 increases their role and raises concern about lack of functional clarity.	Around 35% (2007) by all subnational levels, with about 80% of that by districts and cities.
Mexico	Many functions shared across levels. Local functions include fire, housing, planning, refuse collection, parks, leisure, aspects of transport, and public utilities.	Around 45% in total, of which around 6% is municipal (2007).
Philippines	Substantial functions are devolved to subnational governments, particularly health, social services, environment, agriculture, public works, education, tourism, telecommunications, and housing.	25% at the subnational level (2006), with about 55% of that by cities, municipalities, and barangays.
South Africa	Provinces are responsible for primary/secondary education, health care, and social welfare. Municipal governments are responsible for water/sanitation, roads, and electricity. Actual responsibility varies by region and municipal government capacity. There is an ongoing shift of built environment functions to metros.	56.3% of total public expenditures (2007) occur at the subnational level, and 22.1% municipal, with metros accounting for 57.5% of all municipal spending.
Uganda	Districts and urban governments are responsible for most functions but are increasingly governed by national mandates and conditional transfers. Urban areas have larger revenue bases and more de facto discretion.	23% of total public expenditures occur at the local government level.

*Separate data for intermediate and local levels are provided where relevant and available.

SOURCE: Information from country-specific sources summarized in notes 2 and 3.

treatment of metropolitan municipalities in the constitution and in some laws (see table 3.4). The 2009 National Land Transport Act, for example, specifically empowers metros. With or without explicit legal mandates, however, metropolitan and large urban areas tend to provide a greater range of services than other local governments, often with greater de facto autonomy.[7] In South Africa, eight metro municipalities accounted for nearly 60 percent of total spending by the 238 municipalities in 2007 (for details, see Republic of South Africa 2008).

Subnational Revenues: Own-Source Revenues and Sharing of Specific Higher-Level Revenues

Subnational own-source revenue and tax-sharing provisions are diverse (table 3.6). Local sources are limited in Cambodia, Egypt, and Uganda and more extensive in Brazil and the Philippines (see also chapters 6, 7, and 8). Full local autonomy over any tax is rare, but there is often some discretion over the rate, at least within a range. Pricing of major services, such as water, is typically subject to regulation, but there is often some flexibility on setting local user charges. In Indonesia and Uganda, postdecentralization constraints have been placed on local revenue generation. In Indonesia, however, these restrictions were intended to reduce the use of problematic taxes that emerged after decentralization (for details, see Lewis 2003; 2005).

With respect to tax sharing, a few countries, for example, Brazil and Indonesia, provide substantial sharing of revenues from a number of individual higher-level taxes. In most cases, however, revenue sharing is primarily accomplished through formula-based transfers (see next section and table 3.7) that allocate a block of nationally raised revenues.

Local governments not uncommonly collect 10 percent or less of their revenues. This might be expected in Cambodia, Egypt, and Uganda, but it is also true in more devolved countries, such as India and Indonesia. However, this must be interpreted in context. Indian subnational governments, for example, receive significant shared revenues and transfers, which may reduce their incentive to tax locally. The Indonesian property tax has been a national tax shared with lower levels, although it is now being devolved.

There can be considerable variation in vertical imbalance within countries. In federal systems, this partly results from differential state policies, but it is substantially due to the superior revenue bases and capacity of major urban areas relative to smaller urban and rural jurisdictions.[8] In South Africa, for example, metropolitan municipalities are much more fiscally independent than other local governments, and they are seeking the implementation of a new local business tax.

Intergovernmental Transfers

Intergovernmental transfers often heavily supplement subnational resources, but they can also constrain local autonomy and discourage revenue generation (see also chapter 9). Their use, in terms of importance, objectives, distribution across

[7] This is the general sense that emerges from the various case materials.
[8] This is the general sense that emerges from the various case materials.

TABLE 3.6

Subnational revenues: Local/municipal own-source revenues and shared taxes

Country	Own-source revenues	Shared sources*
Brazil	Municipalities are allowed to collect tax on services (most important in major cities), urban property tax, real estate transfer tax, and fines and public utilities fees. Municipalities collect about 20% (2007) of their revenues from own-source revenues, more in larger cities.	The federal level shares rural property tax (50%), industrial tax (25%), and gold financial operations tax (70%). Municipalities get 25% of state value added tax and 50% of vehicle registration.
Cambodia	No major own-source revenues are collected. Communes are legally allowed to collect administrative fees, land and property tax, and user charges, but this authority remains mostly unimplemented. Authority to higher levels under 2009 legislation is also not implemented.	Most revenue sharing occurs through line-ministry allocations to provinces and transfers to communes (see table 3.7).
Egypt	Only minor local own-source revenues are permitted. The only notable exception is the Local Services and Development Account, which allows local administrations to charge fees for ad hoc activities, but it rarely raises more than a small portion of local revenues.	Local entities share tax (entertainment, property) and nontax (drivers license and various fees) sources, but rates are fixed.
Ghana	Local governments collect more than 50 mostly minor taxes, licenses, fees, and charges. They can set the tax rate but not the base, and they collect fees but not taxes. Revenue generation is subject to central approval.	Central revenue sharing to local governments occurs through a pool of general resources (see table 3.7).
India	Municipal bodies can levy/collect taxes allowed by states from a list in the constitution (7th Schedule): • Property taxes (highest own urban revenue). • *Octroi* (on goods entering a locality), once a major source but now abolished in all but one state. • Minor fees/charges (dominate rural own-source revenue). There is major vertical imbalance: local bodies account for 33% of public spending but only 3% of revenues, ≥10% of own-source revenue, and >90% from urban areas.	Federal and state revenues are mostly shared with lower tiers through formula-based transfers (see table 3.7). The government is proposing a destination-based goods and services tax, with sharing details under discussion.
Indonesia	Subject to some central control: • Provincial (substantially shared with local level): motor vehicles, fuel, groundwater taxes. • City/district: electricity, hotel/restaurant, entertainment, advertisement, mineral exploitation, parking taxes, various others. • User fees and charges at both levels. Local governments collect around 15% of their revenues (2008), more in cities; provinces collect around 45%.	Main sharing is via formula transfers (see table 3.7). Select taxes/state enterprise revenues are shared, including property tax (being devolved), natural resources revenues, and personal income tax. Revenue sharing has been expanded.

TABLE 3.6
(continued)

Country	Own-source revenues	Shared sources*
Mexico	Municipalities receive revenues from urban property taxes, vehicle registration, and fees that vary by states. Municipalities collect 15.6% (2007) of their total revenues, but this can be higher in major urban areas.	Main sharing occurs through intergovernmental transfers (see table 3.7); 20% of oil production revenues from states are shared with municipalities.
Philippines	Subject to regulation, subnational sources include • taxes on real property/property transfer, local business turnover, quarries, amusement, public enterprise proceeds; and • many types of user fees and charges Cities can impose the full set of subnational taxes, with fewer allowed in provinces and municipalities. Cities and provinces must share many revenues with municipalities and barangays. Subnational governments collect about 30% of their revenues (2006) but less (20%) by provinces and can be much higher (≥60%) in cities.	Central revenue sharing occurs mostly through intergovernmental transfers (see table 3.7). National wealth composite (based on a specific set of national revenues) and the tobacco excise tax are shared with subnational governments.
South Africa	Major municipal revenue sources include • property rates; • service fees (water, sanitation, electricity); and • a Regional Services Council Levy until abolished in 2006 and replaced in metros with an origin based share of the national fuel levy. The metros are seeking approval for a new local business tax. Municipalities in the aggregate collect about 75% (2007) of their revenue but there is considerable diversity, from near fiscal independence in metros to near full dependence in smaller urban/rural areas.	Revenue sharing is done primarily through the intergovernmental transfer system (see table 3.7).
Uganda	Primary local revenue sources include • property rates; • a range of fees and charges; and • a graduated personal tax that was the main source outside Kampala until suspended in 2006. Local governments were partly compensated, and service/hotel taxes instituted, but with uneven benefits. Local governments collect <10% of revenues, although this can be higher in urban areas.	Central revenue sharing is done entirely through transfers (table 3.7). No individual taxes are specifically shared; this may change with the discovery of oil and gas and the possibility of shared taxation of these resources.

*The focus is on municipal/local sources unless provincial/state resources are shared with lower levels.

SOURCE: Information from country-specific sources summarized in notes 2 and 3.

levels of government, and degree of discretion in their use, varies substantially (table 3.7).

In some cases, fixed percentages of specific taxes (Brazil) or national revenues (Cambodia, Ghana, Indonesia, Mexico, Philippines) are transferred, mostly by formula but sometimes in part on derivation (Mexico). In a few cases, the pool is decided in the annual budget process (South Africa and Uganda) or fixed for a period (e.g., five years in India as per the National Finance Commission recommendations). Transferred resources dominate in Egypt but through a nontransparent budgeting process (see Algoso and Magee 2011; Ebel and Amin 2006).

Some countries have only a few transfer programs with a dominant unconditional formula-based transfer (Indonesia, South Africa, Philippines). In other cases, multiple transfers are important or use of general revenue sharing is restricted (Brazil, Ghana, Uganda). In Ghana, this was intentional from the start, but in Brazil and Uganda earmarking increased over time because of service delivery concerns. India has a complex set of transfers framed by national planning and finance commissions and further defined by state finance commissions. This includes a variable (across states) mix of unconditional and conditional transfers, some not transparently allocated. In India and Mexico, states have an important role in determining transfers to municipal and other substate levels.

Few transfers are specifically dedicated to large urban or metropolitan areas. Examples include the Jawaharlal Nehru National Urban Renewal Mission for urban infrastructure in India (see Government of India 2009) and the Municipal Development Fund in the Philippines (which also executes infrastructure loans; see below). Major urban areas, however, are often considerably less dependent on transfers in both aggregate and per capita terms because of their superior revenue capacity and, in some cases, ability to borrow for capital investment.

The impact of transfers on urban areas can shift over time. In South Africa, for example, metros are increasingly dependent on transfers because of an influx of poor residents (the Equitable Share transfer formula is based on the cost of providing certain basic services to citizens living below the poverty line), devolution of expensive functions (especially public transport), and the abolition in 2006 of the Regional Services Council levy, a combination payroll levy and turnover tax that heavily benefited larger municipalities (for details, see Republic of South Africa 2008).

Subnational Government Borrowing

All countries reviewed here except Cambodia have constitutional and/or legal provisions for subnational borrowing (table 3.8). In Ghana, Egypt, and Uganda, there is little or none in practice. In Indonesia, borrowing has at times been significant (mostly from public sector mechanisms), but poor repayment and lack of an adequate borrowing framework have led to a decline relative to infrastructure investment needs (see Lewis 2007 and Indonesian Decentralization Support Facility 2012).

A number of more advanced economies with some creditworthy subnational governments have moderate or extensive borrowing, including Brazil, India, Mexico, the Philippines, and South Africa. In federal systems, a large share of subnational

TABLE 3.7
Intergovernmental transfers

Country	Unconditional transfers	Conditional transfers
Brazil	Federal equalization transfer to the municipalities funded with a 22.5% share of the federal value added tax and income tax revenues; 10% goes to the state capital and 90% to other municipalities by formulas.	Some earmarked and discretionary transfers are partly funded from revenue sharing (e.g., primary education and health) and partly from special sources (e.g., education tax on payroll and the National Fund for Social Assistance).
Cambodia	Communes receive unconditional formula-based transfers financed by a fixed percentage of national revenues (currently 3%) allocated to the Commune *Sangkat* Fund. Transfers for provinces, municipalities and districts are to be determined.	Provinces and districts rely mostly on line-ministry allocations, not transfers. Decentralization laws allow for conditional transfers to communes, and multiple kinds of transfers to higher levels as further decentralization mandated in 2009 proceeds.
Egypt	There are only minor unconditional transfers; most funds are allocated through the national budget by sectors.	Conditional transfers dominate in the form of nontransparent budget allocations; there are few formal allocation criteria or formulas.
Ghana	The District Assembly Common Fund, which receives 7.5% of national revenues, is by law permitted to be unconditional but is usually earmarked.	The District Assembly Common Fund finances an average of 80–90% of each district's revenues; these funds are typically earmarked by the central government for capital projects.
India	Indian transfers are complex. There are substantial formula-allocated transfers. National finance commissions constituted every five years determine the revenue-sharing pool and formula and the planning commissions provide development grants. State finance commissions share state revenues with lower tiers. Minor federal transfers for lower tiers pass through states.	There is a large and growing number of conditional transfers, mostly through individual ministries. Allocation criteria vary greatly in terms of clarity. A key urban infrastructure program is the Jawaharlal Nehru Urban Renewal Mission. Recent finance commissions, especially the 13th Commission (2010–2015), have adopted performance-based grants for specific purposes.
Indonesia	Formula-driven Dana Alokasi Umum revenue sharing accounts by law for at least 26% of domestic revenues. Horizontal shares are based substantially on salaries and partly on a fiscal gap measure. Criteria change periodically.	Special-purpose transfers (Dana Alokasi Khusus) were initially limited, grew in importance for several years, and then stabilized in 2007. There is a 10% subnational matching requirement under Law 33 (2004) and recent limited experience with performance-based transfers.
Mexico	Twenty percent of the state share in federal revenues is shared with municipalities; 1% of federal revenues are shared on a derivation basis with municipalities.	Not highly conditional, but 20% of federal government investment grants (*Fondo de Compensación*) go to the 10 poorest states for use by their municipalities.
Philippines	The Internal Revenue Allotment allocates by formula 40% of internal revenues, distributed as 23% each to provinces and cities, 34% to municipalities, and 20% to barangays. The allotment dominates transfers (94% in 2006).	There is a modest level of categorical but not highly conditional grants, including the Municipal Development Fund, the Local Government Empowerment Fund, and the Calamity Fund.
South Africa	There is no fixed pool for the Equitable Share (unconditional) transfer, which accounts for almost 20% of aggregate local revenue (2007) but much less in metros and much more in rural municipalities (pro-poor formula).	Conditional transfers are growing; their importance varies over time, but in 2007 they constituted only about 15% of provincial transfers and about 30% of municipal transfers.
Uganda	No fixed pool is shared with local governments. Only about 10% of transfers are unconditional (2008). A small equalization grant authorized by the constitution has been shrinking and is almost inconsequential.	Almost 90% of total transfers are conditional recurrent grants earmarked for sector-specific activities, and about 20% of total transfers are development grants; these used to be mostly unconditional and are now mostly conditional.

SOURCE: Information from country-specific sources summarized in notes 2 and 3.

TABLE 3.8
Local government borrowing frameworks

Country	Framework
Brazil	Subnational borrowing is allowed by the constitution but subject to a regulatory framework developed in response to problematic state borrowing. Some critics argue that fiscal restraints imposed in the wake of the subnational debt crisis in the 1990s have constrained municipal access to capital markets.
Cambodia	Subnational government borrowing is prohibited by law.
Egypt	Subnational governments are allowed to finance debt up to an amount equal to 20% of shared tax and nontax revenues. In practice, they only borrow from Egyptian government sources and with approval from the Ministry of Local Development.
Ghana	Subnational borrowing is allowed by law but is virtually nonexistent in practice.
India	Subnational government borrowing is allowed and increasingly accessed from multiple sources, including bonds. Local borrowing is subject to state guarantee, although not always in practice. Urban governments dominate local borrowing; indications are that loans are increasingly used to finance operating deficits.
Indonesia	Subnational government borrowing from public and private sources is allowed by law, but most has been from the central government or international agencies through central government on-lending, which has diminished in importance.
Mexico	Local government borrowing is permitted subject to regulation but was long underutilized. Until 2002 much municipal borrowing came through the federal government. There has been an increase in state and municipal borrowing and some recent innovations to promote borrowing, including at the state level.
Philippines	Local government borrowing is allowed by law but relatively limited in practice. Much of it comes through government or quasi-government mechanisms, but some municipalities issue bonds or borrow from private sources.
South Africa	Subnational government borrowing is allowed by constitutional and legislative provisions. It is increasingly important (13% annual growth rate from 2004 to 2008), especially for metros, and Johannesburg and Cape Town have issued bonds.
Uganda	Subnational government borrowing is allowed by the constitution with central government approval but is rare in practice.

SOURCE: Information from country-specific sources summarized in notes 2 and 3.

debt is assumed by states. Brazil and South Africa have robust fiscal responsibility and borrowing frameworks. In Brazil, however, critics argue that the framework, a response to a 1990s subnational debt crisis, unduly constrains municipal borrowing (see Rezende and Garson 2006).

Allowable sources and mechanisms of credit for subnational governments vary. In the Philippines, much borrowing occurs through dedicated mechanisms: the Municipal Development Fund, a public agency that mixes grant and loan finance, and the Local Government Unit Guarantee Corporation, a private entity promoted by the Development Bank of the Philippines. A range of finance options is available in South Africa, but nearly 70 percent of municipal borrowing occurs through the Development Bank of Southern Africa (a public agency) and the Infrastructure Finance Corporation (a private corporation that issues bonds to lend for municipal infrastructure) (see Republic of South Africa 2008). Cape Town and Johannesburg have issued bonds, and other urban municipalities access private credit.

The Ahmedabad Municipal Corporation was the first urban local body in India to directly access capital markets in 1998. Since then, municipal corporations have raised considerable resources through both taxable and tax-free municipal bonds, some without state guarantees. In recent years, both the Tamil Nadu Urban Development Fund and the Greater Bangalore Water and Sanitation Project have raised funds through pooled financing that allows municipalities to jointly access the capital market (see Government of India 2009). Mexico has also adopted innovative finance mechanisms, including future flow securitization and pooled finance schemes, which are making municipal credit more readily available (see Guigale, Korobow, and Webb 2000; Leigland and Mandri-Perrot 2008; U.S. Agency for International Development 2010).

There are no special legal provisions for borrowing by urban and metropolitan governments, but they tend to be among the more creditworthy local governments. In Brazil, three large municipalities recently accounted for 70 percent of local borrowing (see de Mello 2007). Indian municipal corporations have also incurred a large share of local borrowing. Loans financed about a third of South African municipal capital expenditures in 2007, but only 26 of 283 municipalities have borrowed, with the metros dominating the field (see Republic of South Africa 2008).

Oversight, Governance, and Accountability

Beyond the fiscal powers discussed above, other key aspects of the overarching national framework can affect subnational government performance, some of which are discussed in more detail in chapters 4 and 5.[9] These include a variety of higher-level oversight, governance, and accountability measures.

Higher-Level Regulation and Monitoring

Unitary states commonly have ministries or departments with a general mandate to regulate, monitor, and support local governments: local administration (Egypt), local government (Ghana, Uganda), interior (Cambodia), interior and local government (Philippines), provincial and local government (South Africa), and home affairs (Indonesia). In some cases they have considerable control, while in others they largely ensure that substantially autonomous local governments meet legal requirements. Specific formal provisions for metropolitan governments are rare, but they may be treated differently because of their higher profiles, greater roles, and resource significance.

Central or state agencies with a specific cross-sectoral mandate (finance, planning, civil service, etc.) generally have some regulatory and monitoring control over local governments or policies that govern them (see Connerly, Eaton, and Smoke 2010). The framework for subnational public financial management, procurement, audit, and so forth, is particularly critical.[10] Unitary states tend to have standardized public financial management systems, while variations among states may exist in federal systems. Standardized systems and strong fiscal responsibility

[9] A framework for assessing local accountability is outlined in Yilmaz, Beris, and Serrano-Berthet (2010).
[10] Fedelino and Smoke (2013) review public financial management and fiscal decentralization linkages.

frameworks, as in South Africa, Brazil, and Uganda, can promote transparency and consistency.

Sectoral ministries (health, education, public works, etc.) also play a key role in subnational service delivery in most countries. In some cases, they primarily develop and monitor standards, while in other cases they heavily control local government spending, for example, through how they manage sector-specific conditional fiscal transfers.

Although these regulatory and oversight functions are essential for an effective public sector, they can create obstacles to good performance if they are too stringent, not appropriately followed, or inconsistently applied. Public financial management provisions, for example, can undermine local autonomy if they highly limit local expenditure discretion, as in Uganda, or if procurement is managed or must be approved by a higher level, as in Cambodia and Egypt. Thus, higher-level agencies have a legitimate oversight role, but they can also interfere in ways that may undermine local government performance.

Subnational Elections and Assemblies

In all countries under review, subnational elections are held regularly except at purely administrative levels, such as the county and parish in Uganda (table 3.9). How elections are conducted affects the role that representative bodies can play in realizing the expected benefits of fiscal decentralization.

In some cases, elections are multiparty and competitive (Brazil, India, Indonesia, Mexico, Philippines). In other cases, multiple parties exist but one or two dominate (Cambodia, Ghana, South Africa). In still other countries, there has been a recent transition to multiparty democracy (Uganda) or a major transition is under way (Egypt). Choice in municipal elections is, of course, a key aspect of accountability.

Mayors or local assembly heads are directly elected in Brazil, Indonesia, Mexico, Philippines, and Uganda, but this is of mixed significance. In Mexico, mayors can serve only one three-year term. In other cases, the significance of direct elections is partly neutralized by the appointment of an influential local representative of the center (Uganda) or the chief executive to elected councils (Cambodia, Ghana), potentially reinforcing upward accountability.

In a few countries, there is a lack of clarity on the relationships among subnational levels of government. These include local and district municipalities in South Africa, the *panchayati raj* institutions in India, districts and communes in Cambodia, and the multiple subdistrict councils in Uganda (including city and municipal divisions). The use of multiple tiers with unclear mandates can complicate developing consistent mechanisms for service delivery and accountability relationships between the electorate and the main local governments. On the other hand, if properly structured with appropriate functions and financing (e.g., with major network functions at the higher tier), multitier arrangements can enhance local political connectivity while promoting efficient areawide delivery of major services.

TABLE 3.9
Subnational elections and assemblies

Brazil	Elections are held at both state and municipal levels every four years. Municipal councils and mayors are directly elected. There is considerable political competition.
Cambodia	Representative bodies are elected through universal suffrage only at the commune level. District and provincial councils are elected indirectly by the next lower council. Political competition is limited, with dominance by the Cambodia People's Party.
Egypt	Local people's councils were elected at governorate and *markaz* levels. Under Mubarak the former ruling National Democratic Party dominated. Local elections are provided for in the 2012 constitution, but the details need to be determined.
Ghana	District (including metropolitan) assemblies have four-year terms. They comprise 70% elected members and 30% presidential appointees. The district chief executive, who serves like a mayor, is appointed by the president, and a presiding officer is elected by the members of the assembly.
India	Elections are held at the state (some bicameral) level and various substate levels (three-tier *panchayati raj* system in states with > 2 million population), including the municipal level. There is considerable political competition and diversity, and the system is very complex.
Indonesia	Regional people's assemblies are elected at local and provincial levels every five years. Since 2005, provincial governors and local mayors are directly elected.
Mexico	State and municipal assemblies are elected, every six years at the state level (in line with federal elections) and every three years in municipalities. Direct election of municipal mayors is relatively new, and those elected can serve only one term.
Philippines	Directly elected bodies exist at all subnational levels, with the assembly size depending on status (province, city, municipality, barangay) and population. Provincial governors, municipal mayors, and barangay captains are directly elected.
South Africa	Each province and municipality elects a unicameral legislature every five years. Provinces use party-list proportional representation. The legislature elects a premier from members, and the premier appoints an executive council. Municipal elections use proportional representation and a ward system. The council elects a mayor from its ranks, and the mayor appoints a mayoral committee with executive powers.
Uganda	Three of the five subnational government levels (district, sub-county and village) have an elected council with direct election of a chairman and vice chairman (the other two levels are administrative). Adoption of multiparty democracy (abandoning the "no party" National Resistance Movement) increased political competition.

SOURCE: Information from country-specific sources summarized in notes 2 and 3.

Subnational Autonomy in Budgetary and Staffing Decisions

Local governments prepare their own budgets except in Egypt and at higher levels (until recent legally mandated reforms are implemented) in Cambodia (table 3.10). Various factors, however, constrain local discretion, and some countries allow more flexibility than others. Local governments in the Philippines and South Africa have considerable autonomy (and receive mostly unconditional transfers) in spending and hiring. Higher-level governments review budgets in the Philippines but only to ensure regulatory compliance.

TABLE 3.10
Subnational budgeting and staffing discretion

Country	Framework
Brazil	State and municipal governments have independent budgets and hire staff. Autonomy has been somewhat constrained by earmarked transfers, but there is still considerable flexibility, and municipal budgets do not require state approval.
Cambodia	Commune governments have their own budgets, whereas provincial and district budgets remain embedded in the national budget until reforms proceed.
Egypt	Local autonomy is highly limited by the complex and fragmented national budgeting process. The many budget authorities are not coordinated within, much less across, sectors. All public hiring is subject to central guidelines and review.
Ghana	District assemblies prepare and approve their own budgets subject to earmarks, and personnel decisions are made jointly by local and national government. The president appoints chief executives of districts, with approval from district assemblies.
India	State governments have considerable autonomy. Urban and rural local bodies fall under state jurisdiction, and levels of local autonomy vary across states, with different transfer and supervisory policies.
Indonesia	Subnational governments initially had complete budget autonomy, with legality review by the next-higher level. National civil service regulations allowed a reasonable degree of subnational discretion. Law 32 of 2004 expanded higher-level control over budgeting review and civil service decisions.
Mexico	State budgets are coordinated with federal allocations by sector and through a codified fiscal negotiation process. Municipal budgeting also includes joint negotiations with state governors and the federal government for resources beyond revenue-sharing allocations. Municipal budgets and borrowing must be approved by state legislatures. Municipalities hire staff subject to state laws.
Philippines	Subnational governments prepare budgets with legality review by the next-higher level. National civil service regulations allow subnational discretion.
South Africa	Municipalities develop their own budgets for approval by the municipal council, but budgets and hiring must follow relevant laws and regulations.
Uganda	Local governments have little budgetary autonomy. Most revenue is in the form of conditional transfers. Unconditional transfers are mostly consumed by fixed administrative costs. Local governments had significant hiring autonomy, but with central approval, and some local positions have been recentralized.

SOURCE: Information from country-specific sources summarized in notes 2 and 3.

At the other end of the spectrum, local budgeting and hiring in Egypt are almost fully controlled by national agencies. Cambodia's communes have budgets and unconditional transfers subject only to legality control, but they are small. Provincial, municipal, and district budgets are still embedded in the national budget. The center controls civil servants at all levels, with line department staff accountable to the parent ministry. The budgeting situation may change as reform proceeds, but continued central control of the civil service seems likely (see Smoke and Morrison 2011). In Ghana, district (including metropolitan) assemblies pass budgets but subject to heavily conditional resources and the appointment of their chief executives by the president. Other hiring seems to involve joint central-local processes (see Awortwi 2010; Hoffman and Metzroth 2010; Kuusi 2009).

Between extremes is a range of experience. Among unitary countries, Ugandan local governments have legal autonomy in budgeting and hiring, but the 2001 fiscal decentralization strategy imposed a budget template of conditional transfers. Local own-source revenues have been declining, and recent laws increase the central government role in local hiring and place a central representative in every district. Larger urban areas seem to enjoy more de facto discretion, but this is not well documented. Like Uganda, Indonesia's local governments have legal autonomy, but with some restrictions imposed in recent years. Budgets require higher-level approval, and there is more central control over local personnel decisions than there was under the initial decentralization policy. Indonesia is still more devolved than Uganda (transfers are mostly unconditional, and the relatively productive property tax is being devolved), but there has been some modest rollback of local autonomy.[11]

The federal cases are more complicated. Brazilian municipalities have considerable independence from states in budgeting and hiring, and they receive generous revenue shares. At the same time, the federal government has increasingly earmarked shared revenues. In Mexico, municipal budgets are partly negotiated (for resources above statutorily allocated shares) through a formalized fiscal coordination process, making municipal mayors dependent on state governors. Municipal budgets must be approved by state legislatures, and staff decisions are subject to state civil service legislation. Indian states also regulate budgeting and hiring processes for local, including urban, bodies. As with all things in India, there is much complexity. A periodic national pay commission outlines terms of service guidelines, and some individual states form a pay commission. Each state has a public service commission, but their exact functions differ across states.

Metropolitan-Area Coordination Frameworks

Fragmented metropolitan governance is a well-known challenge in major urban areas around the world (see, e.g., Slack 2007; 2010; Slack and Chattopadhyay 2009). This topic is covered more fully in chapter 4, but it is important to note here that coordination mechanisms can be part of the national framework. The Philippine government, for example, created the Metropolitan Manila Development Authority to help coordinate metropolitan-wide planning and service delivery among the 16 cities and one municipality located in the Manila metropolitan region. The authority is not considered to be very effective, however, in part because it is seen as a national agency (dating to the Marcos era), but also because it is financially dependent on the center and creates few incentives or accountability mechanisms to induce individual mayors to work beyond their own constituencies for the larger metropolitan good.[12]

[11] For further details on Uganda, see Ahmad, Brosio, and Gonzalez (2006) and Smoke, Muhumuza, and Ssewankambo (2011). On Indonesia, see Indonesia Decentralization Support Facility (2012).

[12] For further details on Manila, see Nasehi and Rangwala (2011).

Greater Cairo incorporates five governorates and eight new cities (see Algoso and Magee 2011). The latter were created to attract people from the Nile Delta and operate outside the regular intergovernmental system under the New Urban Communities Authority of the Ministry of Housing, Utilities and Urban Development. Governorates face poorly coordinated planning and budgeting by central agencies. Governors in the Cairo region formed a steering committee to create a strategic metropolitan plan that includes the new cities with support from the General Organization for Physical Planning of MHUUD. How this will play out in the evolving political environment remains to be seen.

Another promising development is offered by recent policy reforms in Mexico.[13] Recognizing the negative effects of metropolitan fragmentation, new federal legislation is creating incentives and funding for municipal-state coordination of development and public investment among municipalities in metropolitan areas. New laws in the states of Monterrey and Guadalajara are creating additional mechanisms. In general, there is often room for improvements in metropolitan coordination in developing countries, and national frameworks and policies can play a key role if properly conceived and implemented.

Transparency and Civic Engagement Frameworks

Access to information and mechanisms that allow citizens to engage with local governments beyond elections are critical for accountability. Most countries covered here have made efforts on these fronts. Some countries have passed national legislation, such as South Africa's Promotion of Access to Information Act (2000), Mexico's Federal Law of Transparency and Access to Public Government Information (2002), India's Right to Information Act (2005), Uganda's Access to Information Act (2006), and Indonesia's Freedom of Information Act (2009). Brazil also recently passed legislation after many failed attempts, but the Philippines and Ghana failed to enact similar bills in 2010. Cambodia and Egypt have no such legislation. In some cases, such as Indonesia and Uganda, the implementation of the transparency laws has been criticized as lacking.

Civic participation is also critical to promoting good local governance, especially in developing countries, where local governments often lack political credibility. All countries here except Egypt have formal frameworks, some of which were initially piloted by international donors. In Cambodia, for example, participatory mechanisms developed for a donor program took root in the communes but have not yet expanded into higher levels or urban areas (see Smoke and Morrison 2011). In contrast, participatory mechanisms broadly promoted by the Ministry of Local Government in Uganda are criticized as mechanical and have not been deeply embraced (see Smoke, Muhumuza, and Ssewankambo 2011). In a few cases, such mechanisms emerged organically from specific local political contexts, through formal government action (e.g., participatory budgeting in Brazil) or civil society channels (as in parts of India).[14] National enabling frameworks for civil society

[13] This discussion is based on personal communications with David Gomez-Alvarez and Alberto Orozco-Ochoa in May and June of 2011.

[14] A critical overview of participatory budgeting is provided in Wampler (2007).

organizations are also critical. Some governments (Brazil, several Indian states, Philippines, South Africa) enable or promote civil society. Support in other countries, such as Cambodia, Ghana, and Indonesia, has been more muted.

Finally, it is important to recognize that citizen engagement can be affected by how intrametropolitan governments and governance are organized. The elected councils and administrations of large municipalities can be distant from constituents. Size may help local governments to achieve scale economies and internalize externalities, but it may also reduce political connectivity to constituents. The above-noted resistance of individual jurisdictions to metropolitan coordination is partly rooted in the desire of smaller councils to respond primarily to their specific electorate rather than attend to the broader needs of the larger metropolitan area. Some balance, however, may be achieved in larger jurisdictions by leaving limited local functions to subjurisdictions. Uganda, as noted above, has multiple levels in district and municipal structures, with most powers at the higher level, and in the Philippines the barangays can enhance political connectivity by providing minor local services while leaving major functions to the larger municipalities.

International Development Assistance Frameworks

International development agencies often play a major role in supporting urban development and local government, as discussed more fully in chapter 15. Such support, however, is often fragmented and may push the intergovernmental system and individual urban governments in conflicting directions, particularly where aid must be channeled through national ministries (see Eaton, Kaiser, and Smoke 2011). For example, donors commonly support local government development and capacity building through a ministry of local government or the equivalent. The same or other donors may simultaneously support public financial management or civil service reforms through a ministry of finance or civil service commission in a way that weakens decentralization. Still others may support service delivery through individual line ministries in ways that are inconsistent with other public sector reforms or limit local autonomy. Fragmented, competing donors may even reinforce counterproductive dynamics among government agencies. Such problems have occurred in a number of countries, including Cambodia, Indonesia, and Uganda.

These issues are generally less relevant in higher-capacity countries that depend less on or more selectively seek foreign aid, or where national development assistance coordination is robust. Donors themselves, however, acknowledge their weakly harmonized and ineffective use of resources for local governance programs in some countries (see Donor Partner Working Group on Decentralization and Local Governance 2011). Where donor fragmentation occurs, the risks need to be recognized and addressed.

Implications for Subnational Government Performance

The national fiscal and institutional frameworks in which local and metropolitan governments operate can decisively affect their performance. Evaluating the nature and effects of these frameworks, however, is not a simple exercise.

The diversity of even the small number of developing and middle-income countries considered here is great. Although they face a number of common issues, there is much variation in historical context, intergovernmental systems, the degree of authority and autonomy granted to local and metropolitan governments, and the nature and quality of accountability mechanisms, among others. The observed variations do not seem particularly systematic, even across countries with some similar characteristics. Equally diverse are the multiple factors that influence how systems are framed and function, including political economy considerations, which may constrain the feasibility of desired reforms and affect the nature of suitable strategies to implement them (see, e.g., Smoke 2007; 2010). In this complex landscape, generalization about improving national frameworks is difficult beyond a few well-known normative principles.

The most fundamental step in evaluating metropolitan fiscal performance is to diagnose in a broad-based and well-grounded way the match between the features of the national institutional and fiscal framework and a country's objectives for metropolitan government and development. A number of considerations are important in this regard.

First, the powers and functions of metropolitan governments must be understood in the context of the overall structure of the public sector. This requires documenting what they do and how they are funded relative to the central government and other types of subnational governments, including any cosharing of functions and any special metropolitan status or considerations. Metropolitan governments may be territorially isolated or contiguous to independent jurisdictions with which they should ideally work to deliver services, raise revenue, and promote development. Inadequate functional clarity and insufficient vertical and horizontal interjurisdictional cooperation can nontrivially compromise performance.

Second, it is important to understand how components of the fiscal system interact. Proper functional assignments for metropolitan areas are important, but implementation can suffer if funds are poorly matched to responsibilities, unpredictable, or subject to rigid conditions or problematic manipulation. Unconditional development grants, for example, are often recommended to finance devolved infrastructure, but they may have limited impact if metropolitan governments have insufficient access to and/or control over the resources needed to operate and maintain new infrastructure. Similarly, responsible borrowing is considered desirable, but metropolitan governments may have weak incentives or capacity to take loans if they have easy access to development transfers or inadequate recurrent resources to service debt. Such inconsistencies and weaknesses in the fiscal architecture can impede good performance.

Third, recognizing how aspects of the accountability framework fit together is critical. Reasonable national (and in federal systems, state) standards and oversight for metropolitan and other local governments are legitimate, and collection and analysis of performance data help higher levels to allocate resources and provide useful information to voters. Strong downward accountability mechanisms (beyond competitive elections) are also needed to realize the expected benefits of decentralized decision making. Yet central and/or state regulatory overreach is common, even for capable and well-resourced metropolitan governments, and downward accountability (through the structure of metropolitan government and the means for citizen engagement) is also often neglected. Together, these realities may complicate local accountability and tend to skew it too far to the upward side of the spectrum.

The relevance of these institutional, fiscal, and accountability framework issues will vary across countries, as will the reasons these frameworks have evolved in a particular way and the prospects for improving on the status quo. Documenting the facts is needed in each case if pragmatic remedial action is to be crafted.

Three different approaches can be used to help overcome the effects of observed framework limitations. First, national policy measures (institutional reform, incentives for local actors, asymmetric treatment of metropolitan governments, etc.) can, if properly structured, help to correct common systemic problems, such as revenue-expenditure mismatches, inappropriate assignment of responsibilities, and functional or jurisdictional fragmentation that undermines good governance and service delivery efficiency.

Second, governmental actors in metropolitan areas can independently take formal or informal steps within the existing national framework to alleviate fiscal and governance problems that undermine good performance. Such measures include improving cooperation in making fiscal decisions and raising funds, as well as adopting mechanisms to improve transparency and appropriately increase citizen engagement.

Third, civil society actors in metropolitan areas can put pressure on government officials to change their behavior. This can be accomplished through more robust use of electoral and participatory mechanisms, collective action taken by business and industry associations, and the adoption of civil society organization driven citizen report cards, among others.

Although each can play an independent role, the relationships among these actors and levels of action needs to be considered. Focusing on larger fiscal and institutional issues independently of how metropolitan areas are governed internally and the extent to which their governments are credibly connected to their constituents is not sufficient. For example, the desirability of additional revenue generation in many countries is well recognized. But national policies to increase revenue autonomy may have little impact if local governance is weak and citizens and businesses resist paying taxes because they lack faith in their metropolitan government. What matters for realizing potential benefits from empowered metropolitan governments is how intergovernmental structures, local governance mechanisms, and political connectivity to local taxpayers work together.

If meaningful change is to occur, at least some of the actors involved in this challenging arena must be motivated to act. Productive action requires sufficiently understanding the structures of metropolitan governments, the challenges they face, and the factors underlying both. This chapter provides a preliminary sense of why such analysis is important and how to approach it. The relative dearth of work on the topic, however, should inspire researchers and practitioners to deepen our understanding of how metropolitan governments are being and could be better supported by the national fiscal and institutional framework to meet their critical responsibilities and priority goals.

REFERENCES

Ahmad, Ehtisham, Giorgio Brosio, and Maria Gonzalez. 2006. Uganda: Managing more effective decentralization. Working Paper No. 06/279. Washington, DC: International Monetary Fund.

Ahmad, Ehtisham, and Vito Tanzi. 2002. *Managing fiscal decentralization*. Oxford: Routledge.

Alfonso, Jose Roberto, and Erika Amorim Araujo. 2006. Municipal organization and finance: Brazil. In *Local governance in developing countries*, ed. Anwar Shah. Washington, DC: World Bank.

Algoso, David, and Jenna Magee. 2011. Structures of metropolitan governance and finance: A case study of Cairo, Egypt. Working Paper. Cambridge, MA: Lincoln Institute of Land Policy.

Alm, James, Jorge Martinez-Vazquez, and Sri Mulyani Indrawati. 2004. *Reforming intergovernmental fiscal relations and the rebuilding of Indonesia*. Cheltenham, U.K.: Edward Elgar.

Awortwi, Nicolas. 2010. The past, present, and future of decentralization in Africa: A comparative case study of local government development trajectories of Ghana and Uganda. *International Journal of Public Administration* 33(12):620–634.

Bahl, Roy, and Paul Smoke, eds. 2003. *Restructuring local government finance in developing countries: Lessons from South Africa*. Cheltenham, U.K.: Edward Elgar.

Birch, Eugenie, and Susan Wachter, eds. 2011. *Global urbanization*. Philadelphia: University of Pennsylvania Press.

Burki, Shahid Javed, Guillermo Perry, and William Dillinger. 1999. *Beyond the center: Decentralizing the state*. Washington, DC: World Bank.

Cheema, G. Shabbir, and Dennis Rondinelli, eds. 2007. *Decentralized governance: Emerging concepts and practices*. Washington, DC: Brookings Institution.

Connerly, Ed, Kent Eaton, and Paul Smoke, eds. 2010. *Making decentralization work: Democracy, development and security*. Boulder, CO: Lynne Rienner.

Crawford, Gordon, and Christof Hartmann. 2008. *Decentralization in Africa: A pathway out of poverty and conflict*. Amsterdam: Amsterdam University Press.

de Mello, Luiz. 2007. Fiscal responsibility legislation and fiscal adjustment: The case of Brazilian local governments. In *Financing cities: Fiscal responsibility and urban infrastructure in Brazil, China, India, Poland and South Africa,* ed. George Peterson and Patricia Clarke Annez, 40–73. Los Angeles: Sage.

Donor Partner Working Group on Decentralization and Local Governance. 2011. *Busan and beyond: Localizing Paris principles for more effective support to decentralization and local governance reforms*. Bonn: Gesellschaft fur Internationale Zusaamenarbeit.

Eaton, Kent, Kai Kaiser, and Paul Smoke. 2011. *The political economy of decentralization reform: Implications for aid effectiveness*. Washington, DC: World Bank.

Ebel, Robert, and Khaled Amin. 2006. Egyptian intergovernmental relations and fiscal decentralization. Washington, DC: World Bank.

Fedelino, Annalisa, and Paul Smoke. 2013. Public financial management and fiscal decentralization: Opportunities and challenges. In *Public financial management and its emerging architecture*, ed. Marco Cangiano, Teresa Curristine, and Michel Lazare. Washington, DC: International Monetary Fund.

Garg, Subhash Chandra. 2007. Overview of urban infrastructure finance in India. In *Financing cities: Fiscal responsibility and urban infrastructure in Brazil, China, India, Poland and South Africa,* ed. George Peterson and Patricia Clarke Annez, 108–157. Los Angeles: Sage.

Government of India. 2009. Report of the 13th Finance Commission: 2010–2015. New Delhi.

Grindle, Merilee. 2007. *Going local: Decentralization, democratization and the promise of good governance*. Princeton, NJ: Princeton University Press.

Guigale, Marcelo. 2000. Achievements and challenges of fiscal decentralization: Lessons from Mexico. Washington, DC: World Bank.

Guigale, Marcelo, Adam Korobow, and Steven Webb. 2000. A new model for market-based regulation of subnational borrowing: The Mexican approach. Washington, DC: World Bank.

Hoffman, Barak, and Katherine Metzroth. 2010. The political economy of decentralization in Ghana. Washington, DC: Center for Democracy and Civil Society, Georgetown University.

Ichimura, Shinichi, and Roy Bahl, eds. 2009. *Decentralization policies in Asian development*. Singapore: World Scientific.

Indonesian Decentralization Support Facility. 2012. *Proceedings of the international conference: Alternative visions for decentralization in Indonesia*. Jakarta: World Bank.

Kuusi, Suvi. 2009. Aspects of local self government: Ghana. Helsinki: Finnish Association of Local Authorities.

Leigland, James, and Cledan Mandri-Perrott. 2008. Enhancing the creditworthiness of municipal bonds: Innovations from Mexico. *Gridlines* 39 (August).

Lewis, Blane. 2003. Tax and charge creation by regional governments under fiscal decentralization. *Bulletin of Indonesian Economic Studies* 39(2):177–192.

———. 2005. Indonesian local government spending, taxing and saving: An explanation of pre- and post-decentralization fiscal outcomes. *Asian Economic Journal* 19(3):291–317.

———. 2007. On-lending in Indonesia: Past performance and future prospects. *Bulletin of Indonesia Economic Studies* 43(1):35–58.

Manasan, Rosario. 2004. Local public finance in the Philippines: In search of autonomy with accountability. Discussion paper. Manila: Philippine Institute for Development Studies.

Martinez-Vazquez, Jorge, and Francois Vaillancourt, eds. 2011. *Decentralization in difficult environments*. Cheltenham, U.K.: Edward Elgar.

Moreno, Carlos. 2003. Fiscal performance of local governments in Mexico: The role of federal transfers. Mexico City: Centro de Investigación y Docencia Económicas.

Nasehi, Carly, and Rahil Rangwala. 2011. Structures of metropolitan governance and finance: A case study on Manila, Philippines. Working Paper. Cambridge, MA: Lincoln Institute of Land Policy.

Ndegwa, Stephen, and Brian Levy. 2003. The politics of decentralization in Africa: A comparative analysis. Washington, DC: World Bank.

Peterson, George, and Patricia Clarke Annez, eds. 2007. *Financing cities: Fiscal responsibility and urban infrastructure in Brazil, China, India, Poland and South Africa*. Los Angeles: Sage.

Rao, M. Govinda, and Richard Bird. 2010. *Urban governance and finance in India*. New Delhi: National Institute of Public Finance and Policy.

Republic of Indonesia, Ministry of Finance. 2011. *Fiscal decentralization in Indonesia a decade after Big Bang*. Jakarta: University of Indonesia Press.

Republic of South Africa. 2008. *Local government budgets and expenditure review: 2003/04–2009/10*. Pretoria: National Treasury.

Revilla, Ernesto. 2012. Mexico's fiscal federalism. Draft Paper. Washington, DC: World Bank.

Rezende, Fernando, and Sol Garson. 2006. Financing metropolitan areas in Brazil: Political, institutional and legal obstacles and the emergence of new proposals for improving coordination. *Revista de Economia Contemporânea* 10(1):5–34.

Sahasranaman, Anand. 2009. *Pragmatic municipal finance reform: Lessons from policy in South Africa, Brazil and select experiences in India*. Chennai: Institute for Financial Management Trust.

Slack, Enid. 2007. Managing the coordination of service delivery in metropolitan cities: The role of metropolitan governance. Policy Research Working Paper No. 4317. Washington, DC: World Bank.

———. 2010. Financing large cities and metropolitan areas. Toronto: Institute on Municipal Finance and Governance, Munk School, University of Toronto.

Slack, Enid, and Rupak Chattopadhyay. 2009. *Finance and governance of capital cities in federal systems*. Montreal: McGill-Queens University Press.

Smoke, Paul. 2007. Fiscal decentralization and intergovernmental relations in developing countries: Navigating a viable path to reform. In *Decentralized governance: Emerging concepts and practices*, ed. G. Shabbir Cheema and Dennis Rondinelli, 131–155. Washington, DC: Brookings Institution.

———. 2010. The imperative of strategic implementation. In *Making decentralization work: Democracy, development and security,* ed. Ed Connerly, Kent Eaton, and Paul Smoke, 191–217. Boulder, CO: Lynne Rienner.

Smoke, Paul, Eduardo Gomez, and George Peterson, eds. 2006. *Decentralization in Asia and Latin America: Towards a comparative interdisciplinary perspective*. Cheltenham, U.K.: Edward Elgar.

Smoke, Paul, and Joanne Morrison. 2011. Decentralization in Cambodia: Consolidating central power or building accountability from below? In *Decentralization in difficult environments*, ed. Jorge Martinez-Vazquez and Francois Vaillancourt, 313–342. Cheltenham, U.K.: Edward Elgar.

Smoke, Paul, William Muhumuza, and Emmanuel Ssewankambo. 2011. Comparative assessment of decentralization in Africa: Uganda. Washington, DC: U.S. Agency for International Development.

Souza, Celine. 2003. Brazil's system of local government, local finance and intergovernmental relations. Birmingham, U.K.: University of Birmingham, International Development Department.

Steytler, Nico. 2005. The place and role of local government in federal systems. Johannesburg: Konrad-Adenauer Stiftung.

Steytler, Nico. and Yonaton Fessha. 2011. Defining provincial and local government powers and functions: The management of concurrency. Bellville, South Africa: Community Law Center, University of the Western Cape.

Stren, Richard, and Robert Cameron, eds. 2005. Special issue on metropolitan governance reform. *Public Administration and Development* 24(4):275–364.

U.N. Department for Social and Economic Affairs. 2009. World urbanization prospects. New York.

United Cities and Local Governments. 2010. Financing local government: The challenges of the 21st century. Second GOLD Report. Barcelona: United Cities and Local Governments.

U.S. Agency for International Development. 2010. Subnational government finance in Mexico. www.usaid.gov/mx/financeeng.html

van Ryneveld, Philip. 2007. Fiscal decentralization and the financing of urban infrastructure in South Africa. In *Financing cities: Fiscal responsibility and urban infrastructure in Brazil, China, India, Poland and South Africa*, ed. George Peterson and Patricia Clarke Annez, 183–204. Los Angeles: Sage.

Wampler, Brian. 2007. *Participatory budgeting in Brazil: Contestation, cooperation, and accountability.* University Park, PA: Penn State University Press.

Wilson, Robert. 2011. Metropolitan development: Does governance matter? Washington, DC: Woodrow Wilson International Center for Scholars.

World Bank. 2005. East Asia decentralizes: Making local government work. Washington, DC.

Wunsch, James, and Dele Olowu, eds. 2003. *Local governance in Africa: The challenge of democratic decentralization*. Boulder, CO: Lynne Rienner.

Yilmaz, Serdar, Yakup Beris, and Rodrigo Serrano-Berthet. 2010. Linking local government discretion and accountability in decentralization. *Development Policy Review* 28(3):259–293.

Yilmaz, Serdar, and Varsha Venugopa. 2010. Local government discretion and accountability in Philippines. *Journal of International Development*, doi: 10.1002/jid.1687.