

BOOK REVIEW

Adbaru Tesfaye Alemu¹

Anwar Shah, *Local Governance in Developing Countries: Public Sector Governance & Accountability. Public Sector Governance and Accountability Series.* Washington, D.C.: World Bank, 2006. 457 pp. ISBN 0-8213-6565-7; eISBN-10: 0-8213-6566-5.

The book was showcased at a learning event organized by the World Bank Institute, where senior policymakers from various countries such as Argentina, Australia, Brazil, Canada, Chile, China, India, Indonesia, Kazakhstan, Mexico, Pakistan, Poland, the Russian Federation, South Africa, Switzerland, Thailand, and the USA were present. It features chapters contributed by esteemed scholars and includes comments from reviewers. Throughout the book's preparation, Sandra Gain, Mike Lombardo, Sana Shah, Theresa Thompson, and Jan Werner have collaborated at different stages, providing commentary and contributing remarks.

The book is divided into twelve chapters, each with its own unique set of contributors who offer insights into local governance organization and finance within their respective contexts. In the first chapter, the author takes a fresh perspective to explore the conceptual and institutional literature on local governance. Moving on to the second chapter, the author delves into the trends of local government in South Africa before and after apartheid. The third chapter focuses on explaining the structure and finance of local government in Uganda. It provides an overview of local government's organization, expenditure, revenue assignments, the overall system of local government finance, experiences with revenue mobilization, and intergovernmental fiscal relations, including transfer systems.

Chapter four explores the structures, functions, revenues and expenditures of local governments in China. Chapter five and six of the book examines both the rural and urban local governments' trends in India. In the book, there are in-depth analyses of the structures, characteristics and local governance of India. The author stated that the global technological advancement and expansion shape the roles of various government levels and their relationship

¹Lecturer at the Department of Social Security Management, College of Finance, Development and Management, Ethiopian Civil Service University, email: adbaruata@gmail.com.

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with civil societies and private institutions. Thus, to enhance public service delivery, the participation of local government and civil societies are crucial. This change requires alternative and different sources of public finance for local service delivery and giving prior attention for local government in local development. The book delves in to the organization and structures of local government and local governance in different chapters.

In the book, chapter seven explores local government organization, structure and financing of local government in Indonesia. The past financial reforms and their implications are discussed in the chapter. Chapter eight of the book analyzes the local government system in Kazakhstan before and after 1993, providing local government reform process and their implications on local government finance. Chapter nine discusses local government trends & overviewing the success of decentralization reform in Poland. Argentina and Brazil's local government organization and finance structures are discussed in chapter ten and eleven respectively. In the last chapter Chile's local governance and local government resource allocation has explored.

The book is focused on comparative institutions that aim to promote accountable, responsive and responsible local governance in developing countries. It provides a concise overview of the analytical literature on local governance and traces the historical development of local governance in particular and governance in general. More importantly the book offers a border understanding on different local governance models and their organizations, structures and functions. In addition to this, the book took case studies researched by known international scholars from different countries. These case studies offer a detailed analysis of the organizational structure and financial management of local governments in each country.

The publication aligns with the World Bank Institute's mission to facilitate knowledge exchange and learning through cross-country experiences in public governance reform. Its primary objective is to assist policymakers and practitioners in developing countries in making well-informed decisions to enhance local governance and enhance social outcomes for their constituents.

In Chapter one, the author provides a brief overview of the conceptual and institutional literature on local government. The author also highlights that a synthesis of the conceptual literature indicates that the role of local governments today is not only to address market failures but also government failures. This role necessitates local governments to function as purchasers of local services, supporters of networks comprising government service providers and non-governmental entities, and as gatekeepers and watchdogs for state and national governments in areas of shared governance.

According to the author, local governments must also act mediators between different units and networks to foster greater synergy and harness the untapped potential of the broader community to enhance residents' quality of life. The concepts of globalization and the information revolution further reinforce these perspectives on the catalytic role of local governments. The writer also highlights that the perspective is based on the histories of industrialized nations and ancient civilizations like China and India. Initially, local government played a central role until conflicts and conquests resulted in the transfer of local government responsibilities to central and

regional governments. This pattern continued until globalization and the information revolution revealed the limitations of centralized management in enhancing quality of life and societal outcomes. The author presents a fresh concept of self-governance, advocating for a multi-centered, multi-level system. According to **Shah** (the author), this approach is essential for establishing and sustaining a government that prioritizes its citizens, where the citizens themselves are the ultimate authority and the various government bodies serve as providers of public administration. In developing countries, citizen empowerment may be the sole means of reforming public administration when governments are unwilling or unable to initiate reforms.

Chapter two delves into the trends and challenges of local government in South Africa before and after apartheid. It covers aspects such as historical background, the current system, financial aspects, and intergovernmental relations. The writer explains that the history of local government must be understood within the context of the transition from apartheid to the new democratic system. Previously, local government was segregated based on race, with limited roles for black individuals before 1977. However, ongoing political unrest after 1976, the reliance of urban economies on black workers, and the failure of laws attempting to restrict the influx of black individuals into urban areas led to a growing recognition of the permanent presence of Africans in cities and the necessity of inclusive political structures at the local level.

The author discussed the establishment of regional services councils in the 1980s to address financial challenges faced by smaller white municipalities and black local authorities. These discussions eventually transitioned to a political and fiscal agenda, aiming to unite local governments across racial lines and utilize all local revenue for the benefit of all residents. The inclusion of a chapter on local government in the 1994 constitution led to significant changes in three phases. The per-interim phase, from 1993 to 1995, involved the establishment of forums for local government discussions. The second phase was termed interim while awaiting a more comprehensive investigation into future possibilities for local governance that would be appropriately aligned with the national constitutional framework. The newly elected national assembly was assigned the responsibility of drafting a final constitution adopted in 1996 and included a detailed chapter on local government. The third phase, starting in 2000, focused on delineating municipal boundaries, resulting in the creation of six metropolitan councils and a reduction in the total number of municipalities. The book also mentioned the different tiers of local government, including metropolitan governments, primary municipalities, and district municipalities.

Chapter three focuses on the recent holistic reforms of Sub-Saharan African countries' public administration systems, with a particular emphasis on decentralization. Uganda is highlighted as a case study, as it has successfully transformed its public sector structure and service delivery mechanisms through bold decentralization initiatives. The chapter provides a comprehensive summary of Uganda's local administration financing mechanism, covering aspects such as local governance arrangements, allocation of expenses and income, revenue generation challenges, and the relationships between different levels of government in fiscal matters. The author also highlights key insights gained from the fiscal decentralization process that took place from 1994

to 2004. The author emphasizes that Uganda's decentralization efforts have resulted in a significant overhaul of governance mechanisms, aiming to devolve political, administrative, and fiscal power. The government's strong political commitment to decentralization, driven by the belief that it would engage and gain political support from the population and ensure more effective service delivery, contributed to the rapid pace of the reforms. While administrative, legal, and political reforms progressed quickly, fiscal reform played a crucial role in the transformation at a slower pace. However, recent years have seen groundbreaking reforms in this area as well.

In chapter four, the author discussed the important role of local authorities in China in providing public services. China's local governments implement the national policies strategies & directives to address local needs and provision of innovative service to local communities. Local government has made enormous effort in poverty reduction & infrastructural development that attracts investment and expands the local tax base. These tireless efforts are appreciated by the author, however, there has been challenges faced by local governments in China. These challenges are limited financial independence, lack of incentives for providing transparent services. As a result local governments in China are greatly leading to overreliance on local user fees and affects access to social service for poor and rural communities. It is interesting to note that regional economic growth can enhance the influence of local politicians on a national scale, as highlighted in the book. The ownership of state-owned enterprises by local entities can lead to the government exerting informal control in the private sector, opening doors for unethical practices.

Furthermore, state-owned enterprises can ease budget constraints and reduce regional fiscal accountability. Despite the importance of local governments being accountable to their constituents, in China, they are primarily answerable to higher levels of government and the local leadership of the Communist Party. To strengthen accountability to local residents, China is experimenting with direct elections for the executive branch of township governments in specific regions.

Chapter five & six focus on the organization and finance of local government in both urban and rural India. The author highlights a global trend towards decentralization, which aims to promote more participatory and inclusive governance. In 1992, India adopted this approach by amending its constitution to empower local political bodies and strengthen grassroots-level democracy.

The goal was to provide decentralized governance to the people creating democratic, independent, and financially stable local institutions able of planning and carrying out projects for their various states. Based on the conviction that people should have a voice in decisions affecting their and that local problems are best solved with local solutions. Though classic forms of local governance have been present in India for ages, the post-independent period saw a move toward creating such a system, mostly motivated by Gandhi. The 73rd & 74th constitutional changes then required the creation of rural & urban local government in every state as well as financing systems & local elections. Giving constitutional status to rural & urban local entities, the three-

tier local governance framework guaranteed consistent structure & operations across the country. Though the two modifications are somewhat alike, their application to rural & urban local authorities mostly sets them apart.

In both chapters, the book seeks to investigate the financial needs of both rural & urban local governments of India. States have formed state finance commission every five years to guarantee enough financial means. The commission analyzes the finance of municipal institutions & makes suggestions to state government. In local government there are two main revenue sources that is internal & external revenue. Internal revenue is produced from taxes including land or property tax as well as non-tax sources like user fees & rents. External source of revenue, on the other hand, are allocated revenue, grants in aid & loans from central & state governments, domestic institutions, financial intermediaries, capital market, & donor organizations. It should be remembered that the particular source of revenue might differ for rural & urban local bodies, which include loans from the central & state governments, domestic institutions, financial intermediaries, capital markets, and donor agencies.

Chapter seven is an exhaustive analysis and critical appraisal of the changes so far carried out as well as those still pending. Furthermore, it gives ideas relevant to other nations considering restructuring their own financial systems. The progression of this text involves a detailed analysis and an evaluative perspective on the reforms carried out up to now and those that are still ongoing. Additionally, it derives principles from this experience that may be relevant to other nations considering a reorganization of their economic frameworks.

The author noted that significant local government reforms were initially introduced in 2001. The shift to a significantly more decentralized mode of governance proceeded smoothly. Local authorities assumed responsibility for their new functions as planned. The central government has consistently increased the pool of resources allocated to subnational governments, both in relative and absolute terms. In 2004, the second round of democratic elections at both national and subnational levels took place without any major disruptions, and local governments are now led by democratically elected mayors. Meanwhile, the most significant risks associated with decentralization have been mitigated.

The author emphasizes that decentralization has not caused service delivery issues or macroeconomic instability. However, there are areas for improvement to enhance the positive outcomes. This includes giving more taxing powers to local governments alongside expenditure responsibilities. The current approach focuses more on delegating expenditure authority rather than tax authority, which limits the benefits of decentralization. The book also discusses how relying solely on unconditional transfers for local government financing can undermine accountability. Expanding local tax bases has advantages, as it links tax payments to service delivery and encourages citizens to monitor government performance. To achieve these benefits, Indonesia needs more autonomy in sub-national taxation, such as allocating significant tax bases for minor public goods.

The author's Indonesian experiment shows that decentralization alone does not address income disparities between regions, leading to inadequate services in poor areas. Balancing fiscal

resources is crucial for ensuring that local governments with limited funds can meet their spending needs. Indonesia's reforms focused on filling fiscal transfer gaps, promoting local autonomy without considering local accountability. A balanced approach is needed, strengthening autonomy while promoting responsible local governance. One effective method is to introduce output-oriented minimum standards grants for essential services like education, health, and transportation, distributed based on service recipients and allocated to providers based on client service indicators.

The eighth chapter of the book explores Kazakhstan's unique governance system, which is centralized with the central government holding the most power. Local public administration lacks independence, with executive bodies having more authority than representative bodies. The taxation authority in Kazakhstan is not independent and cannot establish taxation bases or set tax rates, except for the land tax. Local representative bodies can adjust land tax rates based on land zoning projects.

Currently, Kazakhstan does not recognize local taxes and does not practice the distribution of taxes between national and local budgets. In the past, the government aimed to redistribute finances through the national budget, but the author questions the justification for increasing resource allocation compared to the scarcity of resources during the transition from Soviet rule. Local authorities are expected to be accountable for inadequate services, but Kazakhstan lacks mechanisms to ensure their accountability to the people they serve, unlike in other countries with democratic procedures.

Since 1999, the author has noticed a change in the funding mechanism. High-revenue areas now have deductions from their income, which go to the national budget. Subsidies are then given from the national budget to support low-income regions, aiming to bridge the gap between income and expenses. Local budgets can operate at a deficit, with local representatives and executive bodies responsible for balancing budgets. Borrowing is allowed to cover deficits, with the Ministry of Finance providing budget loans upon request. This system also applies at the district level, where executive bodies can borrow from the regional budget for various purposes. Unfortunately, there are no incentives for accountability in delivering local public services, as local authorities do not rely on citizen feedback despite having the necessary expertise.

Chapter Nine discusses the case of the Poland local government and highlights the success of the decentralization initiative undertaken by the Polish government during the Polish revolution. The author emphasizes that local governments are efficient providers or coordinators of local public services, surpassing the dispersed state administration of the previous system. The implementation of broad decentralization and a stable public finance system in the early 1990s facilitated the gradual development of local financial planning skills, the growth of the local borrowing market, and significant improvements in local infrastructure.

However, it is important to note that not all local governments operate satisfactorily, and instances of corruption in local administration or improper resource allocation decisions do exist. It is crucial to learn from positive examples in intergovernmental reforms and the local finance system, as well as experiences that should be avoided.

Chapter ten of the book discusses the case of Argentina, where municipalities have self-governance with an assembly, executive, and courts for minor infractions. The national constitution guarantees provincial autonomy, with provinces responsible for primary education, justice, and the "municipal regime." Municipalities in Argentina have executive and legislative powers, but lack a significant role in the judiciary, which is handled by higher levels of government. The decentralization of local governments in Argentina is more pronounced compared to other Latin American countries without a federal system. Elected officials, including mayors and councilors, are appointed through free elections that may coincide with provincial or national elections.

The author discussed the funding sources for municipalities in Argentina, including local taxes, transfers from other government levels, and credit. Most Argentine municipalities rely on rates for revenue, unlike higher levels of government which have access to a wider range of tax revenues. Public spending in municipalities reflects traditional functions and a specific distribution between current spending and investment. Local governments in Argentina obtain resources from taxes, transfers, fines, rates, and fees. The national tax-sharing system transfers funds from national tax collections to provinces, and then to municipalities. Provinces must establish similar systems with their local governments to comply with federal law. Tax-sharing systems are the primary means of fiscal relations between government levels, with transfers made without conditions. National and provincial tax sharing with municipalities is the main form of unconditional transfer between sub-national levels of government in Argentina, with minor forms of transfers or grants also existing to promote fiscal balance among municipalities.

The author states that financial assistance in Argentina comes in the form of non-repayable contributions from the treasury, which can be unconditional or conditional. Vertical and horizontal fiscal imbalances are common in sub-national governments, with larger and more developed provinces having more financial autonomy. In contrast, less developed provinces heavily rely on transfers and shares, creating a vertical imbalance. Credit financing allows local governments to increase their revenue beyond their taxation powers. Despite the national average imbalance, some local governments outperform their provincial counterparts and could take on more expenditure responsibilities to improve the system's efficiency.

Chapter eleven of the book explores the Brazil case and its unique concept of municipal administration. The Brazilian constitution, implemented in 1988, granted municipalities the same status as intermediate governments within the federation. This three-tier federation structure is deeply rooted in Brazil's tradition of local self-governance. Despite differences, all municipal governments in Brazil are considered equal under the law, encompassing urban and rural areas. The author emphasizes the increasing importance of local governments in Brazilian federalism. These entities have undergone a transformation, with enhanced revenue-generating capacity and proactive involvement in service delivery, particularly in the social sector. The 1988 constitution aimed to decentralize revenue collection and service provision to municipalities. They have autonomy in imposing taxes, managing expenditures, hiring public employees, determining salaries, and assuming debts.

Additionally, the book discusses how local governments present their budgets and financial reports to their legislative bodies without federal government approval. They have flexibility in receiving larger transfers tied to education and public health programs. Exceptions include voluntary transfers and potential loans from federal entities, which currently hold minimal importance in the fiscal system. Municipal governments encounter several challenges: (1) avoiding a rise in payroll costs related to productive programs, especially in social and urban infrastructure; (2) improving the effectiveness of public spending, such as cutting costs on the legislature and administration; and (3) boosting local revenue generation, particularly in light of increasing needs for social security expenditures at the local level.

Chapter twelve of the book discusses Chile's sub-national government and its limitations in achieving true decentralization. The regional and municipal levels have representative councils that decide how public funds are distributed, but their decision-making is restricted. This is due to categorical grants from the central government, which limit flexibility, especially at the municipal level. Additionally, the absence of a budget for regional governments and strict regulations on municipal rates, tax bases, and borrowing hinder fiscal autonomy at the sub-national level. The book classifies allocations to regional governments into three categories. The first category is funding for delegated responsibilities in education and healthcare, including basic funding and programs to improve specific areas. The second category includes subsidies and assistance transfers directly given to beneficiaries, with municipalities responsible for identifying and administering these programs. There is also a fund for redistribution among municipalities, collecting taxes from wealthier ones and redistributing them to those with fewer resources. The mechanism of this fund is currently being reviewed. The third category consists of decentralized public investment funds, which have been increasing but could potentially reverse this trend. The central government determines annual funds through the national budget.

The book highlights positive aspects of Chilean decentralization, such as municipalities administering social welfare grants to reduce poverty and educational support programs fostering innovation. However, drawbacks include grants not being structured systematically, lack of transparency in borrowing funds, and negative effects of the municipal redistribution fund. Suggestions include designing block transfers, allowing municipalities to borrow funds for transparency, and identifying net beneficiaries and contributors for more effective allocation.

The book uses a case study approach to analyze local governance and provides a framework for comparative institutional analysis in developing countries. It includes historical perspectives and different models of local governance worldwide. The book features case studies from 10 countries, examining organizational and financial aspects. It suggests exploring experiences from advanced economies for a comparative outlook and addressing the speed and extent of decentralization. The involvement of international organizations and donors in supporting local governance could also be explored. Overall, the book offers a valuable perspective, framework, and insights on new issues in local governance.

From this book, readership by policy makers and practitioners in addition to students and scholars of public finance, regional & local development studies, leadership & governance,

development finance, development management, development economics and political science can be benefited.

Readers can glean the significance of effective governance, extending beyond mere enhancements in local administration. The author's blend of theoretical examination and practical observations underscores the necessity for governments to prioritize citizen preferences, prudently handle financial resources, and uphold accountability to local residents. In light of the prevailing trends of globalization and technological progress, this publication serves as essential reading for individuals interested in the critical topic of local governance.