



SOCIAL DEVELOPMENT WORKING PAPERS

LOCAL GOVERNANCE & ACCOUNTABILITY SERIES

Paper No. 113 / July 2008

Local Government Discretion and Accountability: A Diagnostic Framework for Local Governance

Serdar Yilmaz, Yakup Beris, and Rodrigo Serrano-Berthet

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Table of Contents

1. The Local Governance Challenge: Linking Discretion and Accountability.....	1
1.1. A Diagnostic Framework.....	2
1.2. Reconciling Accountability and Discretion: Establishing Trajectories	4
2. The Local Political Setting and Accountability.....	6
2.1. Factors Defining the Local Political Setting.....	6
2.1.1. Institutional Separation of Powers at the Local Level.....	6
2.1.2. Existence and Quality of Local Electoral Systems	8
2.1.3. Nature of Party System and Structures.....	9
2.2. Making Local Politics Downwardly Accountable.....	11
2.2.1. Public Accountability Approaches	11
2.2.2. Social Accountability Approaches	14
3. Local Administrative Discretion and Accountability	16
3.1. Factors Affecting Local Administrative Discretion.....	16
3.1.1. Ability to Regulate	16
3.1.2. Discretion to Procure and Administer Services	16
3.1.3. Discretion over Civil Service and Employment Policies.....	17
3.2 Making Local Administration Downwardly Accountable.....	18
3.2.1. Public Accountability Approaches	18
3.2.2. Social Accountability Approaches	19
4. Fiscal Discretion and Accountability	21
4.1. Determinants of Local Fiscal Discretion	21
4.1.1. Expenditure Assignment: Defining the Role of Local Governments in Service Delivery	21
4.1.2. Revenue Assignment: Financing Local Service Delivery	21
4.1.3. Financing the Fiscal Gap: Intergovernmental Transfer System Design.....	22
4.1.4. Financing Infrastructure: Local Government Borrowing	22
4.2. Making Local Finances Downwardly Accountable	23
4.2.1. Public Accountability Approaches	23
4.2.2. Social Accountability Approaches	24
5. Applying the Diagnostic Framework	26
Annex 1. Defining Discretion and Accountability	27
References	28

Figures & Tables

Figure 1.1: Framework for local government discretion and accountability.....	3
Figure 1.2: Local governance turnarounds: Trajectories	5
Table 1: Local governments and internal controls in selected countries.....	24

1. The Local Governance Challenge: Linking Discretion and Accountability

Improving government accountability improves service delivery, particularly for the poor, a point the *World Development Report 2004: Making Services Work for Poor People* makes in convincing fashion (World Bank 2004). Conversely, increasing the resources allocated for public services without fixing the accountability incentive structure will most likely not translate into greater development benefits for the poor.

Decentralization (devolution)¹ offers significant opportunities to improve government accountability. It creates the possibility of exerting stronger pressures on government performance both from below (the demand side) and from above (the supply side). Decentralization reshapes power relations among the local residents, local governments, producers of local government services, and higher levels of government (including central government). It sets new rules of the political game, helping new local leaders to emerge in the political competition. It thus redefines the interactions between local leaders and their constituencies. Similarly, as a result of new regulatory and financial powers over procurement and service delivery, the decisions and actions of local governments have a greater impact on local economies. Decentralization thus leads to new interactions and contractual relationships between local governments, between small and big private firms, and between providers and producers of services, and communities and nongovernmental organizations.

Despite decentralization's promise for more accountable government, results have been mixed at best. The literature on decentralization contains many examples where decentralization has not led to greater accountability. Part of the reason (and the starting point of this paper) is that decentralization reforms have often been introduced without thinking through their accountability implications. Even when accountability is taken into account, the efforts tend to emphasize either the supply or the demand side of the accountability equation, but not both.

Building appropriate local governance structures requires bridging the supply and demand side so that local governments can be downwardly accountable to citizens. A precondition for downward accountability is to simultaneously empower local governments and citizens.² That requires setting priorities and sequencing decentralization reforms to strengthen accountability on both the supply and demand sides.³

Drawing on the separate sets of literature on the three topics of fiscal, administrative, and political decentralization,⁴ this paper presents an analytical framework for studying the accountability implications of decentralization reform. It identifies the accountability implications of decentralization reforms and

¹ We use the term “decentralization” to refer to one of its forms, devolution—central government’s transfer of administrative and financial decision-making authority to local governments that have clear and legally recognized jurisdictions within which they provide public services to constituents they are accountable to. Although the other two forms of decentralization—deconcentration and delegation—also have accountability implications, our framework focuses only on devolution.

² Recognizing the need to promote transparent, participatory, and downwardly accountable local governance structures, the Social Development Department prepared Economic and Sector Work (ESW) on supply and demand issues under a conceptual local governance framework. See Report No. 40153. This paper summarizes and builds on this ESW.

³ The theoretical literature on decentralization programs provides a normative discussion on broad steps in sequencing decentralization reforms. But it is silent about the link between decentralization and broader accountability reforms. Very few papers analyze this issue. See, for example, Spahn (2005) and Bahl and Martinez-Vazquez (2006).

⁴ The political decentralization literature and the fiscal decentralization literature follow separate pathways. The allocative efficiency argument is the economists’ *raison d’être* for fiscal decentralization. In his work on the theory of public finance, Musgrave (1959) argues that policies of subnational branches of governments should be permitted to differ in order to reflect preferences of residents. Carrying Musgrave’s arguments further, Oates (1972) formulated the decentralization theorem as “each public service should be provided by the jurisdiction having control over a minimum geographic area that would internalize benefits and costs of such provision.” The political decentralization literature focuses on deepening democracy and ensuring the existence of a public sphere for citizens to give feedback and to control government action (Agrawal and Ribot 1999; Fung and Wright 2001; Fung 2004; Ribot 2004).

brings the supply and demand sides together. Such a framework runs the risk of generalizing issues that are mostly specific to the local context, but the goal is not to build a one-size-fits-all prescription. It is essential to conduct systematic analyses of country-specific local power structures, interests, and socioeconomic conditions. Accordingly, the framework proposed here is a diagnostic tool for local policy-makers to use when deciding on policy actions.

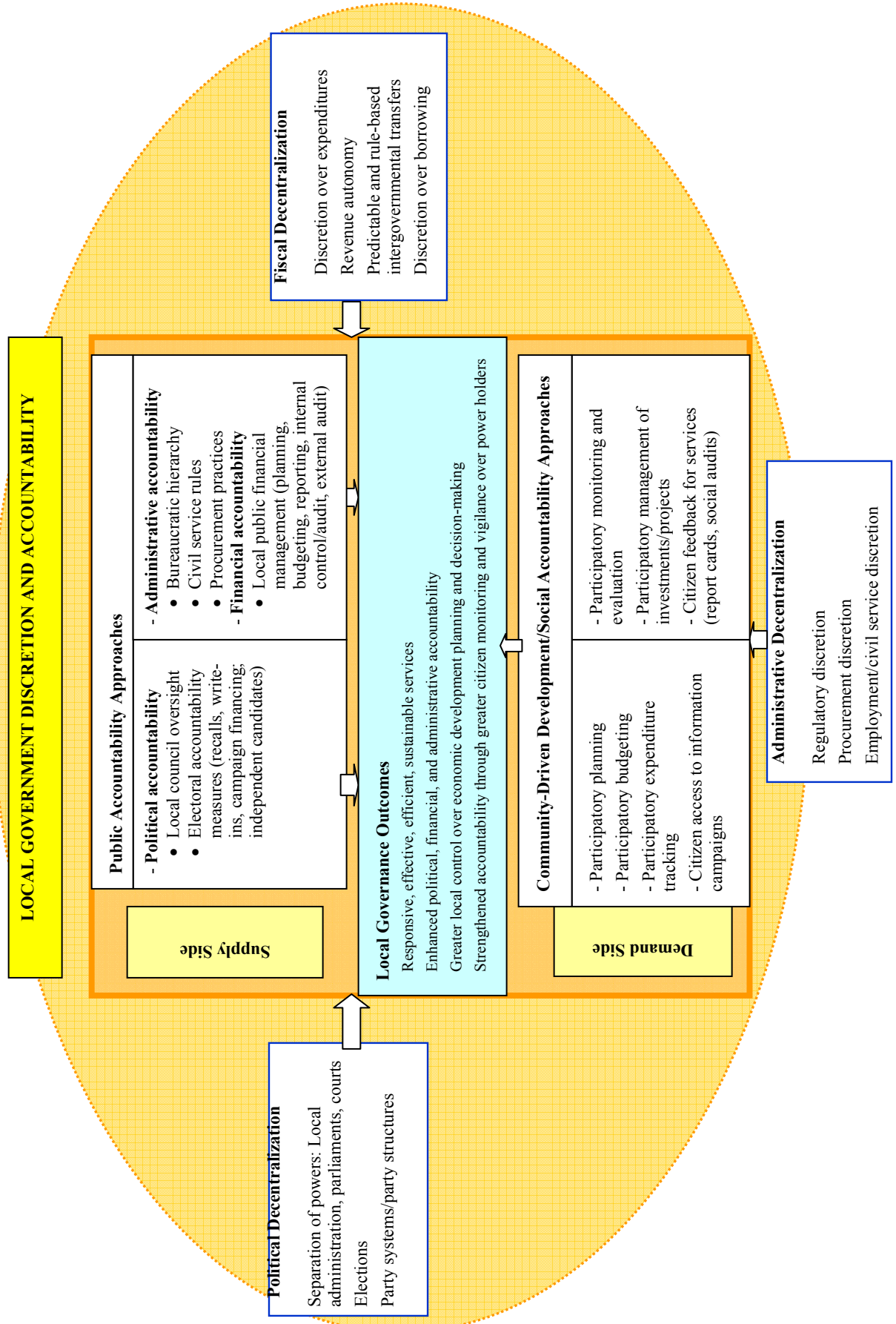
1.1. A DIAGNOSTIC FRAMEWORK

This paper presents a conceptual framework to better analyze the factors that improve local governance (figure 1.1). Central to the framework (for a visual presentation of the analytical framework) are the following arguments:

- Decentralization reforms grant local governments new powers and responsibilities in three dimensions: political, administrative, and fiscal. These dimensions give local governments discretionary space.
- Ensuring appropriate use of such discretionary space requires introducing effective accountability systems. Within their discretionary space, local governments would be accountable to higher levels of government (upward accountability) as well as to citizens (downward accountability).
- Public accountability mechanisms safeguard against misuse and abuse of local discretion, but they have imperfections. New forms of social accountability mechanisms, which enable direct engagement of citizens with government, emerge to complement public accountability mechanisms.
- Public and social accountability approaches must be bridged to ensure that citizens have the ability and opportunity to demand accountability and that local governments have the means and incentives to respond to citizen demands for accountability and better service delivery.

The framework is not intended as a one-size-fits-all solution to the complex public policy issue of discretion and accountability. Beyond the elements in our framework, any analysis of local governance structures needs to pay particular attention to the way local governments (both appointed and elected local officials) establish and maintain accountability relationships with their surrounding local actors

Figure 1.1: Framework for local government discretion and accountability



1.2. RECONCILING ACCOUNTABILITY AND DISCRETION: ESTABLISHING TRAJECTORIES

In our framework, representative local governments are the basic institutional elements of decentralization, accountable to higher levels of government and to citizens as allowed by their discretionary space. The framework includes an ideal decentralization scenario—with a high degree of local discretion and accountability. But countries are at different stages of decentralization, with varying progress in both discretion and accountability. Figure 1.2 shows three possible trajectories for good local governance turnarounds and related scenarios for sequencing local governance reforms.

On the first trajectory, the focus is on local discretion in the short run. Big-bang decentralization reforms are a good example. The reforms initially place emphasis on increasing political, administrative, and fiscal discretionary powers of local governments, as in Indonesia, where the big bang devolved functions and resources through two national laws (Law 22/1999 and Law 25/1999). Supporting laws and regulations, as well as other institutional measures to improve accountability of the local governments, were introduced much later. The next step in such big-bang decentralization reforms is to strengthen the accountability of local governments to citizens.

On the second trajectory, national decision-makers put a higher priority on promoting political pluralism, administrative accountability, and financial safeguards in the short run. This was the case with ex-communist transition countries in Eastern Europe, which initially established plural democracy and strengthened local government systems and later transferred more decision-making power to local governments.

On the third trajectory, both discretion and accountability are strengthened simultaneously. There are few instances of such a perfect diagonal.

Within each trajectory, the relationship between discretion and accountability can be analyzed in greater detail, by quadrant:

In *quadrant I*, both discretion and accountability are very low—highly centralized countries with no local government accountability. This quadrant represents countries that give local governments only limited discretionary space. Local governments are also subject to weak accountability systems. With limited discretion and accountability, local governments are mere extensions of national governments and are not accountable to citizens.

In *quadrant II*, discretion is high but is lacking accountability. This kind of “high discretion-low accountability” combination may actually create perverse incentives for local governments, making them vulnerable to capture by elites or prone to reckless decision-making.

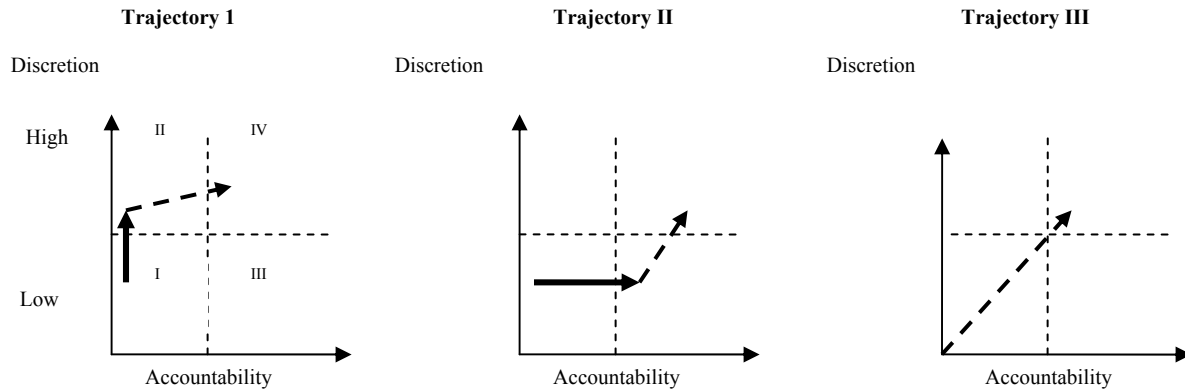
In *quadrant III*, countries are more focused on establishing accountability structures for local governments. In many cases, these accountability structures are in the form of *ex ante* approvals and input controls. But without a high degree of discretion for decision-making, local governments are overloaded by accountability requirements, primarily to upper levels of government, with little incentive for being accountable toward citizens—because most critical decisions are made by the central governments.

The goal of decentralization is to reach *quadrant IV*, where local governments have a high degree of discretionary power accompanied by a high degree of accountability toward citizens.

Admittedly, none of these trajectories is superior to the others. The decision to decentralize is inherently a political one. However, once a decision is made, the ultimate goal is to have a local government system

with a high degree of decision-making autonomy (discretion) and accountability (quadrant III in figure 1.2). Achieving this goal requires efficacious mechanisms for strengthening downward accountability along political, administrative and financial dimensions of decentralization. In the rest of the paper, we identify issues of importance in each of these dimensions and present a framework to analyze factors that can lead to better governance practices.

Figure 1.2: Local governance turnarounds: Trajectories



Initial turnaround Desirable follow-through
 Source: Adopted from Levy 2006.

2. The Local Political Setting and Accountability

Decentralization reforms often lead to tensions among various stakeholders, not surprisingly because decentralization is about redistribution of power within and between levels of government, with different actors having opposing interests in the reforms. Four actors are typically relevant in local accountability systems: local residents, local governments, producers of local government services, and higher levels of government (including central government) (Schroeder 2004: 5). Each has particular relations of accountability with the others. These relations depend on the historical, social, and political constitution of the powers of each actor, which may be based on ideology, wealth, heredity, election, appointment, or other means (Agrawal and Ribot 1999).

Analyzing the local political setting is crucial to understanding the factors that drive accountability (Lankina 2008).⁵ Decentralization reforms can restructure the local political setting, reshaping local actor and voter incentives in many ways—such as changing the size of municipalities, reformulating local electoral legislation, and redefining formal relationships between the representative and the executive bodies (Keating 1995). They can also change the structure of legislative bodies, the balance between elected local authorities and local executives and administrators,⁶ the way councils are elected, the way executives are elected or appointed, and the structures for local legislative and executive bodies to relate to citizens (Lankina 2008).

2.1. FACTORS DEFINING THE LOCAL POLITICAL SETTING

An appropriate political setting for downward accountability requires a suitable environment for local elected leaders to act *independently* (even if it conflicts with their own parties or with the central government) and *responsively* (in line with the demands of the local population). The local leadership will be influenced by at least three sets of factors:

- The institutional arrangements for the separation of powers among the executive, legislative, and judicial bodies.
- The election laws and the electoral system.
- The existence and functioning of a party system and political party laws.

2.1.1. *Institutional Separation of Powers at the Local Level*

Strongly influencing the quality of local decision-making are the checks and balances between the executive, legislative, and judicial branches of local government and the clear separation of powers among them.

⁵ The premise that local political and institutional setting might substantially affect local performance and accountability is extensively theorized and documented in institutionalism-inspired studies of decentralization (Lankina 2007).

⁶ We make a distinction between the elected and executive bodies within local governments because they have distinct roles in local decision-making. Schroeder (2004) depicts local governments (elected and executive bodies) as the provision units rather than producers of services, meaning that they make decisions about the type, quantity, and the quality of services to be made available in the locality, how those services are to be financed, and how they are to be produced. He ascribes the production of services to local public employees, private contractors, or higher jurisdictions under contract with the local government. In this sense, “bureaucracy (and its supporting personnel) is the set of actors that either carry out the production of local services or helps to oversee the private (or public) contractors that serve as production units” (Schroeder 2004: 9). We use the term “local appointed official” interchangeably with “local bureaucracy” and emphasize the important role of local elected representatives in local accountability systems, especially in the oversight of local governments.

A key prerequisite for the separation of powers, at least in theory, is a specialized local court system or alternative local dispute resolution mechanisms able to resolve local conflicts arising from local government actions. Administrative courts are a formal mechanism that can mediate between local governments and citizens in disputes about administrative actions (land use, zoning, and business regulations). Traditional and informal structures may also address cases resulting from local government actions.

Another important component of institutional separation of powers is the relationship between the executive and the legislative. The relationship between and the relative weight of the local executive and the local council establish how local decisions are made. Each country has a different institutional mechanism for assigning the weight to the respective representative and executive bodies at the local level, classified under four categories.

Strong mayor. Under the mayor-council institutional setup, also called a “strong mayor system,” there is an at-large or district-based elected council and a popularly elected mayor, who wields strong executive, often charismatic, authority. The mayor decides public policy and has a strong symbolic role in representing the city (Sisk 2001).⁷ This is the case in many countries where the executive branch of local governments has more power than the legislative (Olowu 2003; Lankina, Hudalla, and Wollmann 2007). The arrangement is detrimental to local accountability if local councils are marginalized and their role is reduced to rubber-stamping the preferences of the local executive (Lankina 2008).

Strong council. The second type of institutional arrangement is the election of a mayor by the council, usually from council members, giving the council more weight than the executive. This system is also referred to as “parliamentary system.” The council has considerable legislative authority as well as administrative power supervising the bureaucracy (Sisk 2001). The mayor, often reduced to chairing council meetings, has a largely ceremonial role (Wollmann 2005). The risk of this type of local governments is that “debating chambers” cannot implement sound policy decisions (Lankina 2008).

Council-manager. The third type of arrangement, frequent under many strong council systems, is the *council-manager*. The council appoints and contracts with a politically neutral administrator to run and manage the city. Although the manager is accountable to the council, he or she is expected to be free to administer the local government bureaucracy without interference, while also having freedom in the recruitment of the local bureaucratic apparatus (Booth 1968). Such an arrangement can preclude politically motivated patronage (Montjoy and Watson 1995).⁸

Commissioner. Under a *commission form of municipal government*, elected commissioners also manage separate departments. The commissioners are both legislators and department chairs. All have equal powers even though one commissioner may have the title of mayor. Hiring decisions to appoint administrators are taken by majority vote. The system has been criticized for violating the principle of division of powers (Montjoy and Watson 1995). With roles and functions clearly identified, local councilors are expected to undertake independent oversight over local executive bodies, and local courts take the role of impartially resolving conflicts arising from local government’s administrative actions.

⁷ Various arrangements exist for governing the relationship between mayor and council. For example, the mayor may have charter-based veto authority over council decisions, and procedures may exist for the council to override this veto. Or, the mayor may lack veto power. Mayor-council institutional setups might have an adverse effect on policy outcomes because political and administrative roles are not sharply distinguished under this arrangement. Empirical studies have shown how electoral turnover, particularly when a new mayor defeats an incumbent, results in proclivities for greater public expenditures and policy changes (Wolman, Strate, and Melchior 1996).

⁸ It has been suggested that city managers are more likely to pursue policy innovations than elected mayors because they are ostensibly more guided by actual effectiveness and efficiency, rather than short-term electoral considerations and pressure group demands, which would have been the case with elected political executives (Montjoy and Watson 1995). City managers are not subject to frequent turnover and thus are more likely to ensure policy continuity and to have credible commitments to other actors in local development (Clinger Mayer and Feiock 1997).

2.1.2. Existence and Quality of Local Electoral Systems

Electoral systems change the incentives of elected local leaders and voters—during and between elections.⁹ An electoral system may favor big parties, undermine alternative voices and dissent, or encourage strict hierarchies within parties.¹⁰ More important, it can be structured in such a way as to systematically exclude certain groups. Or it may encourage political parties to simply “win” the votes of particular groups over others. In sum, the structure of local electoral systems has an impact on the quality of local representation and its responsiveness, and therefore the performance of decentralization reforms (Hiskey 2006).

Scholars of decentralization assert that fair, competitive, and regular elections compel local politicians to exercise power in a way that allows decentralized institutions to provide efficient and fair outcomes (Echeverri-Gent 1993; Crook and Manor 1998; Blair 2000). But if an electoral system does not secure real competition among local politicians, decentralization reforms might end up strengthening the hands of local political strongmen. Political competition among local politicians increases the chances for vulnerable groups to be included in decision-making (Lankina 2008). More important, “Where citizens have a means of control over elected officials through the presence of viable electoral alternatives, the increased level of uncertainty among local political elites should enhance the responsiveness of these elites to the concerns of the citizenry” (Hiskey 2006: 12).

Yet, few scholars provide systematic insight into whether certain electoral arrangements produce better outcomes than others (Packel 2008). A host of factors may shape the effectiveness of elections as an instrument of local citizens’ voice. Key among them: whether elections are based on individuals or party-nominated candidates; whether officials being elected are perceived to wield sufficient power; whether local elections are held concomitantly with national elections; and of course, whether elections are manipulated (Sisk 2001).

In this context, the choice between proportional representation and election through single-member districts through plurality votes, also known as first-past-the-post, is a key institutional variation. In systems of proportional representation, voters generally vote for a party rather than a specific candidate. Electoral districts contain multiple representatives, and the share of votes received by a party is translated by a fixed formula into the number of seats to be held by that party. So, proportional representation works to ensure that a political party’s degree of representation appropriately reflects the electoral support for the party (Packel 2008).

The alternative to systems of proportional representation is majority or plurality voting within single-member districts. Here, voters in a given electoral district vote for a specific candidate. With only one representative per electoral district, voters have greater clarity of representation—they have no doubt who is directly charged with accounting for their interests. The chief drawback is that there is no guarantee that minority interests receive any electoral representation (Packel 2008). This arrangement becomes a particular concern where minority interests are equally distributed across the polity. A party or group that has only a slight minority could easily lose elections in each electoral district, leaving it with no representation whatsoever (Farrell 2001; Gallagher and Mitchell 2005).

There are very few systematic studies evaluating the relationship between varying institutional arrangements and accountability in local governments (Packel 2008). This is true both for advanced industrial democracies as well as developing countries. In the emerging systems of democratic decentralization in the developing world, there is more variation, ranging from pure proportional representation systems, systems mixing proportional representation with elections from single-member

⁹ The concept of *electoral systems* is defined narrowly to refer only to the rules that determine “the means by which votes are translated into seats in the process of electing politicians into office.” *Electoral laws* is a broader concept that includes the laws regulating all facets of the election process, including nomination procedures, the characteristics of the franchise, and how campaigns are conducted (Farrell 2001: 15).

¹⁰ Rules for candidacy may force party members to have closer ties with “the center” rather than their local constituency.

districts, first-past-the-post elections in single member districts, to arrangements where the winning party takes all the council seats allocated through the election (Packel 2008).

2.1.3. Nature of Party System and Structures

Citizens delegate authority to elected representatives to carry out daily functions of a local government. Understanding how political representation works is crucial for establishing checks and balances. The rules and structures of local political representation create (positive or negative) incentives for local elected leaders to be downwardly accountable to all citizens. Political parties lie at the heart of this representation. They articulate and aggregate interests, provide channels for the recruitment of leadership, adjudicate disputes between conflicting interests, and engage in government decision-making. They provide the “linkage” between the ruler and the ruled, the policy-maker and the citizen (Lawson 1980).

The type and quality of political party system and structures influence local political settings in several ways.

- Various parties may advocate policies that may have variable implications for local communities as a whole, as well as for various segments of local populations.¹¹
- Party systems may introduce conflict into community decision-making irrespective of their political color. Party polarization may hamper agreement on key policy issues and create confrontation (Tarrow 1977: 228).
- Frequent party turnover may result in the corresponding administrative personnel turnover in local government, which may in turn affect long-term policy consistency (Tarrow 1977: 230).
- Politicization of local decision-making may encourage policy-making based more on partisanship, clientelism, and the “reciprocation of benefits” (Stone 1980: 989). Extreme politicization of local decision-making might result in the circulation of posts whereby each party has a chance to “dig in for a short period of time” as is reportedly the case in Bolivia’s local councils (Altman and Lalander 2003: 83).
- Local party systems are connected to the central state, the largest provider of revenues for localities in many countries. If intergovernmental transfers are colored by party politics, localities receive transfer revenues based on party affiliation. Such practices have been observed in the Philippines to undercut local planning, complicating efforts for decentralization (Azfar, Kähkönen, and Meagher 2001).
- The link between national and local party politics affects local governance. In some countries, local mayors who belonged to the ruling party at the national level were ousted from office because of the unpopularity of the party at the national level (Prud’homme 1995).

Critical features affecting the party system and structures are the existence of partisan or non-partisan systems, the role of national parties in nominating local candidates, rules governing the financing of parties, rules governing the participation of disadvantaged groups such as women or certain minorities, and the availability of parties based on ethnicity or religion.

Partisan or non-partisan. Although a growing literature looks at the relationship between electoral competition and local government performance, a smaller literature focuses on partisan systems compared with non-partisan systems (Packel 2008). Advocates of non-partisanship in local elections maintain that local government pertains to “bread and butter” issues, on which there can be no division along party lines (Olowu 2003). So, the inclusion of parties at the local level risks allowing policy-making to become contaminated by patronage and clientelism instead of focusing on long-term benefits (Packel 2008).

¹¹ Party turnover may put at stake not just the sustainability of particular policies, but the decentralization agenda as a whole, as perhaps in India’s state of Kerala (Heller, Harilal, and Chaudhuri 2007).

Elected officials may be focused on securing reelection or delivering benefits to their narrow client base, rather than delivering policies that benefit the entire community in the long run (Lankina 2008). In addition, officials may be more concerned with taking measures to ensure their promotion and advancement within the internal party structure, rather than in passing policies that benefit the community (Ahmad et al. 2005).

In both Ghana and Uganda, for example, parties are outlawed in local elections, based on an argument that merit, not party affiliation, is the basis of representation (Crook 1999; Francis and James 2003). India's *panchayats* also operate on a non-partisan basis by law. In Canada, the municipal government of the City of Toronto, Ontario, is the fifth largest government in the country, governing a population of more than 2.7 million. It consists of a non-partisan, directly elected council. The public may have a general idea of the candidates' political affiliations, but their parties have no official recognition or privilege in the functioning of the City Council. Councilors are free to vote on each motion individually so that they are not subject to party discipline.

Allowing parties to participate in local government, by contrast, acknowledges the link between local government and national government. Examples of systems allowing partisanship in local elections are nearly all of the recently decentralizing Latin American countries, including Bolivia and Mexico. In Africa, prominent examples of party-based systems are Côte d'Ivoire, Kenya, Nigeria, Senegal, and South Africa (Packel 2008).

Role of national parties in nominating local candidates. The membership and loyalty structure of the parties, the role of national party leaders in selecting candidates and preparing party lists for local elections, and the hierarchy structure within parties can also shape the behaviors of political parties.

In many countries, parties do not command stable loyalties, with elections focusing on elites or personalities (Azfar, Kähkönen, and Meagher 2001). But a review of relevant case studies shows that national parties play a role in nominations (Packel 2008), which may affect party loyalties. Where local elections occur on a partisan basis, nomination rules that favor national parties can serve as impediments to downward accountability (Packel 2008). This is the case in Senegal, where only nationally registered parties can field candidates for local elections (Packel 2008). In a study comparing six Latin American countries that have taken formal measures to decentralize forest management, Larson (2003) notes with concern that in Bolivia, Brazil, Costa Rica, Honduras, and Nicaragua, local candidates are selected by national parties. These arrangements are also likely to diminish the capacity of local actors to exercise accountability on local elected officials, because their choices for selecting representatives are likely to be limited (Packel 2008).

Heller (2001) finds a similar tendency on South Africa, where he cites the control of the "hegemonic" ANC party over local nominations as both a cause and a symptom of weakened local governments. In South African municipalities, half the elected local councilors come from a party list that is, in part, influenced by the national party. The other half is elected from wards, but even there the national party influences the selection of candidates. Both party list and ward candidates are accountable, largely, to the national party that put them on the party list for their election, not to the local citizens who voted for the party. Such proportional representation gives tremendous power to the people who control the creation of the party list and determines who stands for ward elections. In particular, it allows the party boss to reprimand and ultimately "fire" council members who do not follow the national party line (Wittenberg 2003). Thus, both *de jure* and *de facto* national party control over nominations for local councils appear to have negative consequences for local accountability (Packel 2008). The expectation is that decentralized party loyalty structures and hierarchies may actually encourage local political leaders to focus on and respond to the demands of local constituencies.

Financing of parties. Party funding sources and patterns of spending affect party behavior. Corrupt practices related to covert party funding streams, influence peddling, and leveraging state resources for party purposes may compromise the faith and support of ordinary citizens in the political processes (Bryan and Baer 2005). A recent study by the National Democratic Institute of 22 countries highlights many areas of concern, such as the role of

wealthy business interests in funding campaigns to gain access to lucrative state contracts (Bryan and Baer 2005). This is still an area with a scant literature, especially on how political party finances play out locally. In many developing countries, accurate information about party funding sources and political spending practices is not available to the public, so this understanding of local party finances is critical in analyzing local governance structures.

Rules governing the participation of disadvantaged groups. Without clear rules that stipulate the inclusion of certain disadvantaged or minority segments of society, a party system may easily engender a system of dominance by the majority groups and more powerful social groups. Exclusion of the disadvantaged and minority groups from the party system—based on race, gender, ethnicity, or religion—reflects a party agenda (and inevitably, a local council and government agenda) that might be favoring the majority and the more powerful, undermining the interests of the excluded. In the absence of sanctions against such exclusion, downward accountability of locally elected leaders is damaged, leading to a skewed policy-making and greater rent seeking.

2.2. MAKING LOCAL POLITICS DOWNWARDLY ACCOUNTABLE

Political accountability is a process whereby citizens hold elected officials to account for their behavior and performance—say, through elections (Aucoin and Heintzman 2000). Political accountability can also be improved by having elected local officials oversee local executives, increasing awareness about policy performance of local governments, or involving citizens directly in decision-making beyond elections.

Strengthening the political dimension of local accountability requires some safeguards in local electoral systems and local council oversight. On the demand side, political accountability measures allow for citizen-initiated legislation (petitions), referendums, or recalls of elected public officials. They include procedures for public petitions to adopt, amend, or repeal an act, law, or executive order. They also empower citizens to demand public hearings on policy decisions and action and to appeal to citizen ombudsman offices in local governments.

2.2.1. Public Accountability Approaches

On the supply side, the most common measures to improve downward political accountability include ensuring representation of marginalized and vulnerable groups through reserved seats or quota systems; improving the quality of the electoral system with recall, write-in, and independent candidate options; establishing, monitoring, and enforcing transparent rules for financing local elections; reviewing and revising the role of campaign financing rules; and securing and strengthening the role of an elected body in overseeing local government operations.

Introducing safeguards into the electoral system. Despite many weaknesses, elections remain the principal method whereby all eligible local residents can have a voice in the outcome and can hold decision-makers accountable (Schroeder 2004: 9). They legitimize local authority and provide elected representatives with a mandate for action. They also serve as key means of ensuring public accountability, which could be attained through voting incumbents out of office or demanding regular accounts of actions and policies.

But little attention has been devoted to how specific electoral mechanisms fare in delivering accountability, or even whether voters use elections to hold officials accountable for certain policy decisions (Rodden 2004). Still, the general literature on elections does show that differing electoral arrangements shape how citizens exercise influence on policy-makers (Powell 2000).

An established body of literature on Western local governance suggests that, even under “perfect” conditions of free and fair elections and a wider stable democratic national context, a voice in local

elections fails to ensure that elected officials will exercise power on behalf of all segments of the communities.¹² These studies suggest structural biases against marginalized and non-elite groups built into elections even in Western democracies. Hunter, in his classic study of community power in America, shows how power in U.S. cities is concentrated in, and exercised on behalf of, a narrow group of elite interests (Hunter 1953). The studies on the involvement of underprivileged segments of communities in decision-making processes show that non-elite segments of communities rubber-stamp decisions already reached by other interests (Schattschneider 1960; Bachrach and Baratz 1962). Furthermore, studies from France, England, and the United States show the middle-class, white-collar, male bias in the composition of elected bodies (Balme 1989; Newton 1976; Mabileau 1989; Mabileau et al. 1989; Stone 1989).

To avoid some of the negatives of the electoral system, some countries allow independent candidates to run in local elections, reserve seats for women and other vulnerable groups, allow for recalls of elected officials from public office, and limit the length of the term these officials may remain in office. These mechanisms are important in countries where elections may serve as a highly imperfect mechanism of accountability, where “money, violence, and corruption” dominate them, and where politics are based on kin, personality, or patronage (Olowu, Wunsch, and Aye 2004: 71). Examples from developing countries are Ethiopia and Nigeria, as well as some Indian states, like Madhya Pradesh, where detailed regulations specify how a *gram panchayat* could initiate and pursue the recall of elected officials (Mathew and Mathew 2003).

The impact of these measures on political accountability is complex. For example, re-election procedures could determine political accountability, although two opposing relationships are possible (Packel 2008). Term limits could foster accountability by preventing local politicians from becoming entrenched in their positions and locked into relationships of patronage. Representatives who were recently private citizens would thus be more attuned to the concerns and interests of the community than career politicians (Packel 2008). But if term limits are too restrictive, council members may not have enough opportunity to master the responsibilities of their position before their terms expire.

The theory of retrospective control of politicians asserts that, given perfect information, voters use elections to reward or punish politicians. But without the possibility of re-election, elections lose their power as an instrument of control, and politicians may engage in more rent-seeking (Maravall 2007). Even with imperfect information, eliminating the possibility of re-election may at the very least reduce opportunities for accountability (Packel 2008). One country that imposes term limits on local elected officials is Mexico, where mayors and local council members are elected for three years and barred from holding the same position again for one term (Grindle 2006). Researchers argue that these term limits impede performance (Cleary 2007; Grindle 2006).

Recall gives councils or popular bodies the ability to dismiss elected leaders because of wrongdoing. Unlike elections, in which voter decision-making is likely to incorporate expectations for the future as well as evaluation of past actions, the decision to recall is confined more to evaluations of past actions. In Africa recall provisions are present in Ethiopia and Nigeria (Olowu 2003). India’s *panchayati raj* law varies across different states, but some of the most progressive legislation for recall exists in Madhya Pradesh, where the *gram sabha* (village assembly—open to all adult residents) has the right to dismiss the *panchayat* chairperson in the event of wrongdoing (Johnson, Deshingkar, and Start 2005).

If a provision for recall of local officeholders exists, the design of the provision matters if it is to be an instrument of accountability. Recall alone may not engender downward accountability if the only actors

¹² As a result of a decline in faith in representative democracy, turnouts in local elections have gradually declined over the past few decades in many countries. Elections focused on parties have likewise alienated voters, as parties are often perceived to have lost touch with the electorate. In some countries, like Canada, party politics are considered to be detrimental to local democracy and governance in small jurisdictions; therefore, parties are banned from participating in local elections. It is assumed that party-free elections ensure that mayors and other elected officials speak on behalf of the community and do not espouse narrow party agendas (Sisk 2001).

capable of exercising this power are beholden to national political parties (Packel 2008). Bolivia illustrates this risk. Its law allowing council members to recall mayors has attracted attention, because of its widespread use. This provision, known as the *voto constructivo de censura* (*constructive censorship vote*), allows the town council to remove the mayor with a three-fifths majority vote in cases of misconduct. But in 1997, one year after the first mayors entered office following implementation of decentralizing reforms, 30 percent of them were replaced. This indicated that the *voto constructivo* was being used as a political maneuver, not a response to corruption (Hiskey and Seligson 2003). Indeed, this high use demonstrated that the recall hindered accountability, as mayors wound up being selected by council members, rather than being chosen by the electorate. Where mayors were recalled, citizens voiced less support for the political system than in municipalities where the recall was not exercised (Hiskey and Seligson 2003).

Improving local council oversight. Local councils are the core units of representative governments. Functioning local council oversight relies on the assumption that local elected representatives have more incentive to respond to the needs and preferences of local populations and that they are more downwardly accountable than local bureaucrats.

In an ideal setting, local councils make policies and laws—as representative bodies for collective decision-making—and they work with the local government’s executive branch to deliberate on policies and implementation through public financial management and service delivery. They are assumed to be representing citizens—by giving voice to individual citizens, civil society organizations, and business groups—and by representing the needs of local constituents in policy-making. This assumption leads to public accountability measures that aim to strengthen local council oversight so that elected local leaders oversee local government operations on behalf of local citizens.

The relationship between elected local councilors and executives also pertains to budget planning, execution, and monitoring and evaluation. Local councilors are supposed to oversee the local government’s executive branch during the entire public financial management process and provide local executives with constant feedback. This requires establishing a link between planning and budgeting (whether budgets reflect planning) and between planned and executed budgets (budget execution performance), and producing policy-oriented budgets (outcome-oriented budgeting responsive to demands and preferences of local citizens).

Several factors interfere with the oversight responsibility of local councilors. First is the status of local councilors (Lankina 2008). Although executive positions are generally considered to be full time, in many settings, councilor positions are low paying and part time. In America, most city councils, except in some very large municipalities, have part-time local councils, and the frequency of their meetings varies. In many cases, local councilors hold full-time jobs to make a living, and their council duties are motivated by civic spirit and volunteerism (Pelissero and Krebs 1997).

In some developing countries, there are no safeguards against dual structures of accountability (Lankina 2008). Councilors often occupy dual roles as full-time executive functionaries dependent on, and accountable to, higher-up bureaucracies and elected local officials. In Russia, local councils in some parts of the country are packed with senior employees of medical and educational institutions, such as hospital directors and school principals (Lankina 2004). In these jurisdictions, organized social and political interests are not represented in the local governments. In the Altay region, state and municipal employees constituted over half of all councilors. Such councilors are less likely to adequately aggregate and articulate the preferences of the citizens who elected them.¹³

¹³ In some instances, public employees, such as school principals, appointed by higher level bureaucracies on a contract basis, sit in local councils. They tend to satisfy the political preferences of regional authorities because their jobs are subject to short-term contracts, which could be revoked. Even heads of private enterprises are subject to control and manipulation by higher authorities because their tax privileges and licenses could be withdrawn at random (Lankina 2004).

Other countries demonstrate similar conflicts of interest. In Ghana, a third of the local councilors are formally appointed by state bodies, while in Kenya as well as Ghana, the members of parliament could be ex officio members of local councils (Olowu, Wunsch, and Ayee 2004). In India, some states have power to remove elected representatives or even dissolve *panchayats* (Mathew and Mathew 2003). In many countries, councilor positions also overlap with key patrimonial, social, or other structures in the locality, impeding accountability.

2.2.2. Social Accountability Approaches

Social accountability mechanisms can give poor and marginalized people a more direct voice in the policies that local governments formulate and implement. Such mechanisms are often part of broader efforts to deepen democracy and ensure a robust public sphere for citizens to give feedback and control government action.¹⁴

The practical form of the participatory practices and arrangements include public meetings, citizen juries, forums for various social groups, such as the young or the elderly, neighborhood assemblies, multi-choice referendums accompanied by active public debate and discussions, and activism by nongovernmental organizations and other community groups. In some settings, citizens were excused from work and asked to meet to make recommendations about local issues, drawing even the normally passive and disinterested citizens into public life and activism (Lankina 2008).¹⁵

Citizens have expanded powers to hold political leaders accountable through generic legislation empowering citizens to demand explanations and justifications from local governments, specific bodies and processes for citizen oversight, and formal bodies or processes for citizen oversight mechanisms.

Generic legislation empowering citizens to demand accountability. Some initiatives introduce legal mechanisms empowering citizens to redress grievances or request explanations of municipal legislation. Public hearings and consultations, the right to demand a public hearing, public petitions, and the right to initiate a recall or referendum are examples.

Specific bodies and processes for citizen oversight. Citizen oversight bodies can comprise all citizens in the municipality (*gram sabha* in India), several citizen representatives (Vigilance Committee in Bolivia), or an elected member (citizen ombudsman in Japan). A direct response to the shortcomings of local councils, they try to expand the scope for citizen engagement in controlling government.

The main political decisions that elected leaders make involve allocating public resources to respond to local preferences. In the Philippines, the Local Government Code mandates that all provincial, municipal, and village governments establish a local development council to set the direction for economic and social development and review local government budgets. One-quarter of the council members should come from nongovernmental organizations and community-based organizations (Estrella and Iszatt 2004). Many local development programs transfer discretionary resources to local governments on the condition that they create multi-stakeholder forums, with representation from civil society, local councilors, and deconcentrated offices. Although these forums provide a venue for greater coordination and control, they have to be properly designed to complement the role of the local council.

Participatory budgeting across the world provides an opportunity for citizen oversight of municipal resources, addressing the problem of capture by elites. Although the ultimate decision power over the budgets rests with the parliament, the process can give marginal groups a direct voice in the decisive preparatory phase of budget preparation. The municipality of Porto Alegre in Brazil, for instance,

¹⁴ These efforts represent a new approach to democratic governance that some scholars have called “Empowered Participatory Governance.” It looks at how alternative political and administrative designs can “surpass conventional democratic institutional forms on the quite practical aims of enhancing the responsiveness and effectiveness of the state while time making it more fair, participatory, deliberative, and accountable” (Fung and Wright 2001: 8; Fung 2004).

¹⁵ The size of the locality and its cohesiveness are important factors that determine the effectiveness of such forums (Sisk 2001).

regularly employs community organizers to encourage unorganized citizens to participate and to prevent the process from being taken over by clientelistic networks.

Creating a political culture for citizen oversight through community-driven development operations. By introducing mechanisms for poor people to participate in decision-making and for local transparency and accountability, community-driven development programs have promoted a culture of citizen oversight.¹⁶

¹⁶ A community-driven development approach tries to improve the well being of poor people by increasing their control over the way investment resources are planned, executed, and managed. Because communities do not act in isolation but in a local space where they interact with local governments, sectoral service delivery units, the private sector, and civil society organizations, the community-driven development approach has lately been expanded into a broader local governance approach that captures the quality of these local interactions (Helling, Serrano, and Warren 2005; McLean et al. 2006).

3. Local Administrative Discretion and Accountability

To have flexibility in delivering services and the opportunity to respond to local needs, local governments need to be endowed with administrative autonomy. A local government that can make and enforce regulatory decisions, govern a procurement system (based on national standards), and control and manage its workforce is administratively autonomous.

3.1. FACTORS AFFECTING LOCAL ADMINISTRATIVE DISCRETION

3.1.1. *Ability to Regulate*

As part of administrative autonomy, local governments need a minimum set of powers and capacities to initiate regulatory legislation on issues affecting their jurisdiction. They need the authority to approve and issue generally binding ordinances on public matters in their jurisdiction, subject to national and state laws. Their powers usually extend to local economic development, land use planning and management, zoning, and public safety—and in certain cases, to some aspects of public health, social protection, education, and environmental protection.

Local governments also need such tools as the power to sanction and punish for noncompliance. One such tool is administrative penalty, applied through a locally issued ordinance and administered by a local governing body, such as a local council or a special committee. The penalties usually entail monetary fines or the revocation of licenses or rights related to, say, an economic activity or land use. Such an enforcement mechanism could prove more practical and cost-effective than prosecution through litigation.¹⁷

Administrative penalties do not replace criminal prosecution, and the legal system is important for local administrative autonomy. Enforcing local administrative rulings would be effective and legitimate only when there is recourse to challenge local government decisions.¹⁸

3.1.2. *Discretion to Procure and Administer Services*

Expanded mandates and responsibilities for new services require that local governments be endowed with discretion over processes for procuring goods and services, including service or management contracts, leases, concessions, or joint ventures. This in turn requires flexibility in the procurement laws and regulations and high-quality employees well trained in public procurement, ethics, and contract management (Brennan and Miller n.d.).

Such flexibility and discretion imply that, under national standards and guidance, local governments can develop procurement strategies, identify associated processes, and issue contracts for goods and services. Discretion in procurement processes requires clearly stipulated rules set by national laws and regulations mandating that all local governments adopt an annual procurement policy defining how local governments manage purchases and contracts.

Local governments can develop procurement strategies in line with the overall planning process, considering workforce implications. Procurement processes are also closely associated with the quality of service administration and the way contracts are awarded to partnerships in service delivery. These partnerships include firms of various sizes, social enterprises, minority groups businesses, and voluntary and community organization suppliers. The procurement process also includes contract management.

¹⁷ Such a mechanism also implies a need for a qualified workforce endowed with powers to monitor compliance routinely.

¹⁸ As discussed in section 2, the existence of a specialized administrative court system for local affairs would be instrumental in establishing checks and balances between local executive and legislative bodies.

3.1.3. Discretion over Civil Service and Employment Policies

Local government competency and discretion over civil service and employment policies ideally covers pay policy autonomy (setting local hardship and remote allowances, and setting overall wage rates), budget transparency (paying staff from one's own budget), budget and establishment control (controlling staff numbers and authority to remove surplus staff), recruitment autonomy (recognition as formal employer, authority to hire), career management control (vertical and horizontal mobility, including transfers to deconcentrated units within the local government system), and performance management (directing and supervising activities and tasks, conducting evaluations, and exercising the ability to discipline and fire) (Evans 2004).

Local governments gain greater administrative autonomy when they can pay their staff from their own budgets, have decisive control over staffing levels and skill mix, and can offer their staff enough incentives, flexibility, and opportunity in career advancement and performance outcomes.¹⁹ Each of these factors increases a local government's administrative autonomy and influences its accountability relationship with local bureaucracies. With adequate checks and balances, a decentralized framework for civil service management can break dependencies on higher levels of governments and promote downward accountability.

In many countries "political and fiscal devolution may have proceeded apace, but administrative changes may only approximate deconcentration," and the result is "weakened accountability for service delivery, and...conflicts of interest" (Ahmad et al. 2005: 10). Pakistan is an example of "misaligned" structures of accountability in decentralization (Lankina 2008). Despite devolution of responsibility for education to school districts, school teachers there remained provincial government employees, with the elected district executive, *nazim*, having little authority over them (Ahmad et al. 2005). Similarly in Uganda, despite devolution in health care, key decisions and drug provision remain the prerogative of the center, but salaries and staffing are that of the district, undermining local incentives for efficiency and responsiveness (Azfar, Kähkönen, and Meagher 2001).

Granting administrative autonomy to local governments can become very complicated. For example, central governments may introduce complex structures for local rule making that dilute local administrative autonomy on key local economic and social development issues. Central governments may even create policy environments that undermine elected local governments by granting deconcentrated units of central government the upper hand in rule-making and authorization procedures. This situation can result in a sense of frustration among the local population about the local government's (in)ability to respond to their needs and resolve local conflicts. In addition, local governments may create adverse practices, generating administrative rule-making that is ineffective or detrimental to local socioeconomic development. This may very well be the case due to a lack of experience, of capacity, or simply of foresight.

Another complication in moving forward with administrative autonomy is the human resource implication of decentralization reforms. The reforms reallocate powers and jobs, geographically and institutionally. Issues related to statutes, prestige, and labor mobility often impede this relocation or dislocation across tiers of government. Bureaucracies tend to resist decentralization reforms because of career perspectives and institutional and political allegiances. Such resistance can result in a situation where field officers maintain strong links with their original line ministries, thereby enjoying some insulation against local control. This is often the case in countries where central government officials were simply transferred to local governments after decentralization reforms were instituted. The result is that staff burdens are transferred to local governments, without the discretionary powers over civil

¹⁹ Some form of accountability to higher levels of authority may be unavoidable for local authorities performing state-delegated or state-funded tasks. It is, however, important that there be no confusion about responsibilities (who is responsible for what) or distorted incentive structures whereby the local authorities are deprived of leverage over service providers within their jurisdictions.

service. Because of similar bureaucratic resistance, in India, even though most state acts have clarified the functions to be devolved to local governments, the states have been mostly unable to transfer administrative and technical controls over locally administered programs.

3.2 MAKING LOCAL ADMINISTRATION DOWNWARDLY ACCOUNTABLE

Accountability for the exercise of regulatory powers requires avenues for complaints and redress, accessible to officials and others. Oversight over the use of civil service control includes measures to improve budget transparency on staff payments (including disclosures of wages and salaries of high-level officials), on policies and practices for new hires, and on practices for budget and establishment control (controlling staff numbers and the authority to remove surplus staff). Similar measures are needed to ensure transparency and openness of the procurement process to avoid misconduct and corruption. These measures call for appropriate channels for administrative audits that can be initiated by bureaucrats or elected leaders and by civil society groups.

3.2.1. Public Accountability Approaches

Public accountability in the administrative sphere refers to local civil servants being accountable to their top administrative officers and to such outside officials or entities as public audit officers, ombudsmen, regulators, a particular administrative agency, or a board or committee. Three major mechanisms that public sector approaches rely on to improve administrative accountability are structures within bureaucratic hierarchies, specially designed independent bodies, and administrative courts.

Accountability structures in the bureaucratic hierarchy imply that civil servants are responsible to higher administrative officers, public audit offices, supervisors, and legislative bodies. Higher authorities may instigate investigations or audits of the use of administrative discretion by lower bureaucrats. These methods include internal control and audit, and are important as a first step to uncover information about maladministration by local governments.

Independent bodies can conduct administrative audits on local governments. Accountability through such specially designed independent bodies emerged as a mechanism in response to increased complexities of bureaucracy and new government challenges that require specific expertise. As a result, independent agencies have become a widespread accountability measure. Examples include *independent auditors* (*external auditors*) who scrutinize the use of public funds for signs of misuse, *ombudsmen* who hear citizens' complaints about local governments' regulatory decisions and actions,²⁰ or *theme-specific bodies* (such as the anti-corruption commissions, environmental review boards, or commissions for sustainable development) that address compliance issues with sector-based standards set by the national government.²¹ Theme-specific bodies analyze whether local administrative decisions are in line with national sectoral strategies. These bodies may also focus on the process for administrative decisions or on compliance with national standards.

Administrative courts with local expertise address local conflicts arising from local governments' regulatory and administrative decisions. They can ensure compliance with national laws, regulations, and

²⁰ The office of the Ombudsman in the Indian state of Kerala provides a mechanism for checking power abuses by *panchayats* (Mathew and Mathew 2003). It is a seven-member body consisting of a High Court Judge as the chairperson, other judges, and nonpolitical representatives appointed after consultation with opposition parties. In addition there are appellate tribunals as a source of appeal against *panchayat* decisions. Only impeachment could remove members of these bodies, which minimizes the chance of executive interference with their work (Mathew and Mathew 2003).

²¹ Legislatures set up these agencies to make inquiries, to obtain information, and to issue regulations or judgments. Although their judgments may lack sufficient legal sanctions, they can cause departmental embarrassment and, to a limited extent, governmental changes in policy and decisions (Zarei 2000). In some African countries, like Ghana and Uganda, there are local judicial or conflict-resolving agencies, run by volunteers, which may be customary, providing sound redress for local grievances (Olowu, Wunsch, and Aye 2004).

standards. Such a court system issues binding decisions on legal compliance by local governments, and it may resolve cases that the local governments and associated independent bodies fail to address.

3.2.2. Social Accountability Approaches

Public accountability approaches are necessary to provide channels for uncovering basic information on regulatory decisions, civil service practices, and services. Yet, public approaches alone fall short of ensuring proper use of administrative discretion. Citizen-based efforts concentrate on producing the information about local governments' administrative decisions and actions that is most relevant for local citizens welfare—monitoring the quality of services and the way contracts and tenders are given at the local level. Recent approaches emphasize the need for citizens to initiate administrative audits to reveal more information on employment and pay policies as well as relationships between local governments and service providers.

Information provision as a basis for citizen monitoring. Lack of information on financial allocations often leads to the abuse of funds. Making information available to the public is thus often the starting point for many social accountability initiatives. Civic groups could, in this respect, monitor local decisions. In India, social audit committees, comprising respected individuals with impeccable reputations, scrutinize local decision-making and publicize findings on how public money is allocated and spent (Mathew and Mathew 2003). In the state of Rajasthan, public hearings with wide publicity and social mobilization forced public officials to return public money they had misallocated (Mathew and Mathew 2003).

Monitoring procurement and implementation of local government contracts. The contracting and implementation of public works and services suffer from a high risk of corruption and mismanagement. Citizen-based initiatives complement internal government accountability mechanisms that manage these risks—supervising contracting and bidding process, monitoring construction, and auditing budget execution.

A typical source of local government corruption and collusion involves drafting tender documents in ways that unfairly benefit one contractor over others. Citizens have organized public consultations in which different parties get a chance to comment on draft tender documents before the start of bidding. In addition, independent outsiders can conduct an in-depth analysis of tender documents. In the Philippines, the Local Government Code defines special bodies in which accredited nongovernmental and community-based organizations have a seat on the prequalification, bid, and award committee for local contracts. In Argentina, the Municipality of Morón, assisted by the local chapter of Transparency International, introduced two mechanisms to monitor the contracting of the waste collection service, which had been widely criticized for alleged corruption during the previous administration. At an extraordinary session of the city council, attended by 500 people, participants discussed the draft tender document with the bidders. Next, through an integrity pact, the hearing helped establish mutual commitments between the local government and the bidders on sanctions for bribery and on public disclosure of the award decision. As a result of the hearing, the contract value for waste collection services was reduced from about \$45 million to \$32 million.

To increase transparency, citizens have also been involved in overseeing the opening and analysis of the bidding offers. In Nicaragua, the Social Investment Fund encouraged community organizations receiving investment projects from the municipality to be present during the opening and analysis of bids (Grun 2000). Citizens can also oversee construction while it is taking place. Citizens are trained to see that funds allocated to an investment are spent as budgeted and that the physical construction follows the standards agreed to in the contract, such as the correct amount of cement, thickness of the walls, or depth of the well.

Monitoring local service provision. The level and quality of service provision are probably what citizens care about most. Participatory assessments and feedback surveys are often accompanied by agreements on

the expected standards of services. Public representation in service-specific institutions can channel citizen complaints and allow regular oversight.

One of the main innovations that drew attention to the potential of the social accountability approach was the citizen report card in Bangalore, India (Paul 2002). The cards are participatory surveys that solicit user feedback on the performance of public services. They are used in situations where there is no demand-side data, such as user perceptions of the quality and satisfaction with public services. Citizen report cards gather demand-side data about state-owned monopolies, many of which lack incentives to be responsive. The report card process relies on extensive media coverage and civil society advocacy to achieve greater accountability in Ghana, India, Malaysia, Senegal, and Uganda. Social funds committees are user groups that ensure services are delivered as intended.²² A complement is the citizen charter, a pact between the community and the service providers that spell out expectations and roles, enabling the citizens to interact more effectively with the municipality. The charters specify the expected standards of the services, identify who is responsible, and outline the procedures for the redress of complaints. For example, the Citizens' Charter in the Municipality of Mumbai, India, covers detailed public services for each municipal department.

Other strategies have relied on the creation of new institutions to promote citizen oversight over a specific service that the local government provides. Usually these are multi-stakeholder councils formed by different combinations of users, civil society organizations, government, and private sector representatives. Examples include the local school councils in Chicago in the United States (Fung 2004) and citizen community boards and school management committees in Pakistan (ADB/DfID/World Bank 2004).

Citizen monitoring of administrative decisions should be seen as a complement and not a substitute for public accountability mechanisms. Citizen-based actions may in fact fail to provide effective oversight. Local citizens often lack the knowledge to adequately assess the quality of complex services, which results in "market imperfections" in the sense that they cannot properly hold local policy-makers accountable (Lankina 2008). What voters can assess is often wasteful, but highly visible projects, whose implementation also rewards narrow clients, not the broader citizenry (Ahmad et al. 2005). This was the case in the Czech Republic, where one badly performing municipality decided on a very costly, but also highly visible bridge across the river that runs through the city (Lankina, Hudalla, and Wollmann 2007). Similar caution is needed to judge the quality of participation in community activities to monitor local government service delivery. Even if participatory mechanisms are in place, which might boost a given locality's overall economic development, the levels of participation within the community are likely to be lower among those less economically advantaged and the benefits of the new participatory arrangements biased toward those who are better off (Lankina 2008). A study in Uganda found that education and income were determinants of membership in such key local government committees as health and school management (Azfar, Kähkönen, and Meagher 2001).

²² The empirical record of these mechanisms is mixed, and no systematic evaluation of their effectiveness exists (Olowu, Wunsch, and Aye 2004).

4. Fiscal Discretion and Accountability

Local government performance is linked to the scope and nature of fiscal decentralization. If local governments are denied the fiscal instruments and funding to make real use of their political autonomy, decentralization is doomed.²³ Fiscal decentralization rearranges roles and responsibilities among different levels of governments with the intent of transferring some fiscal decision-making powers from central to subnational governments. The rules regulate local government actions in four areas: expenditure assignment, revenue assignment, intergovernmental transfers, and subnational borrowing (Bird 2000).

4.1. DETERMINANTS OF LOCAL FISCAL DISCRETION

4.1.1. Expenditure Assignment: Defining the Role of Local Governments in Service Delivery

Fiscal decentralization requires assigning public services that have high local-public-good characteristics to local governments.²⁴ Devolving expenditure responsibilities to local governments is an important step in increasing the participation of citizens in local decision-making. A genuine spirit of decentralization requires assigning a meaningful level of expenditure responsibilities to local governments with service autonomy so that they can respond to local needs.

A clear assignment of service responsibilities requires a well-defined institutional framework that describes the roles and responsibilities of different levels of government. Clear assignment of expenditure responsibilities becomes even more important in sectors where line ministries and other government agencies may also deliver services at the local level—often in the same geographic area. This situation often exists for education, health, and social services in many developing countries.

The division of roles and responsibilities (and thus the discretion over services) between deconcentrated and decentralized units of government are a source of tension and confusion in decentralization. Clear assignment of roles and responsibilities is decisive in shaping accountability relationships among various actors at the local level.

Local governments also need the discretion to make their own expenditure allocation decisions (with necessary reporting, monitoring, and sanctioning). Decentralization generally becomes a contest between the central and subnational levels. If the contest is not resolved, it can easily constrain local autonomy and reduce the local government's credibility and responsiveness in service delivery.

4.1.2. Revenue Assignment: Financing Local Service Delivery

Oates's decentralization theorem (1972) states that local governments should provide services to identifiable recipients up to the point where the value placed on the last (marginal) amount of services for which recipients are willing to pay is equal to the benefits they receive. The implication is that local governments must be given the authority to exercise "own-source" taxation to self-finance local services at the margin. The premise is that local governments are more accountable to citizens when relying on their own tax bases. By contrast, they would be less accountable when the pleasure of expenditure benefits is separated from the pain of taxation (Bahl and Schroeder 1983).

²³ Alternatively, excessive fiscal autonomy may undermine national government efforts at macro-economic stabilization.

²⁴ In countries where decentralization does not end up transferring such responsibilities to local governments, central government departments and public sector companies continue to deliver most services that have high local characteristics. Examples include such services as primary education, health, and public security that are still delivered by central government (through deconcentrated units) in many countries.

Significant revenue autonomy and some tax effort incentives are critical to encourage downward accountability and increase the efficiency of local government operations. Although there is no set of prescribed rules in revenue assignment, subnational governments should at least have rate-setting authority over locally assigned revenues (Bahl 1999). To claim autonomy, local governments need to have discretion in setting the tax rate, defining the tax base, and administering the revenue collection. A completely local tax is one that is assessed and collected by local governments—at rates decided by and with proceeds accruing to local governments (Bird 2000; Bird and Vaillancourt 1998).

Central governments may interfere with local revenue autonomy, putting direct or indirect restrictions on local government discretionary space. In Uganda, local governments may impose additional taxes, but only with the approval of the Ministry of Local Government. This limits local governments to minor variations from the list, because the law provides no standard for the Minister of Local Government to approve or reject proposed new revenue sources (Azfar, Kähkönen, and Meagher 2001). Restrictions on revenue generation are similar in the Philippines. While boosting local taxing authority, the Local Government Code in Philippines constrains local revenue collection through rules on rates, assessments, appeals, and administrative responsibilities (USAID 1999). The accountability implication of constraining a local government’s revenue-raising ability is that it might create incentives to make inefficient investment decisions, especially if costs can be shifted to central budgets (Campos and Hellman 2005: 242).

4.1.3. Financing the Fiscal Gap: Intergovernmental Transfer System Design

The design of intergovernmental transfer systems has implications for accountability because it affects the fiscal dependency on central government and local revenue-raising ability. Four elements of the transfer system determine local government’s fiscal dependency on central governments:

- Rules that determine the total amount of transfer—the distributable pool.
- The way the distributable pool is allocated among local governments.
- The purpose of the transfer system—an unconditional general purpose grant versus a conditional specific transfer.
- Local government involvement in the design and management of the intergovernmental transfer system (Yilmaz and Bindebir 2003).

The financing that comes through transfers leaves little room for local decision-making and priority-setting, and it is often insufficient to meet all expenditure needs. The result is a failure to deliver services. In Uganda, this situation is revealed in the uniformly run-down urban infrastructure, in poorly maintained rural roads, and in the feeling that people’s taxes are largely covering the salaries of the local administration, which generates a widespread unwillingness to pay taxes, making service delivery even worse a vicious circle of noncompliance.

In Nigeria, local government overdependence on intergovernmental transfer revenues, coupled with uncertainty about the amount and timing, “facilitates local evasion of responsibility under the guise of fiscal powerlessness” (Khemani 2006: 292). And in Uganda, earmarked conditional grants finance approximately 88 percent of local government expenditures, maintaining a substantial line ministry control over local expenditure decisions curtailing district autonomy.

4.1.4. Financing Infrastructure: Local Government Borrowing

Many central governments limit, control, or even prohibit the issuance of debt by local governments. Such restrictions on borrowing limit local discretion in addressing investment needs.

In countries where the central government does not prohibit local borrowing entirely, there are measures to restrict it. There are four approaches to limit local government borrowing: *market discipline* (in which market forces regulate local government borrowing), *cooperative arrangements between local and central governments* (in which central/federal and local governments design local borrowing controls), *rule-based controls* (in which central governments unilaterally exert controls on local borrowing), and *administrative constraints* (in which central governments directly control local borrowing).

4.2. MAKING LOCAL FINANCES DOWNWARDLY ACCOUNTABLE

Fiscal accountability seeks transparency in the management of public funds. It also requires that governments manage finances prudently and ensure integrity in their financial reporting, control, budgeting, and performance systems (Sahgal and Chakrapani 2000). This means reporting comprehensively on what local governments have achieved with their expenditures.

4.2.1. Public Accountability Approaches

Public sector measures to improve downward financial accountability include strengthening local capacity for budgeting and public financial management; setting standards for control on intergovernmental transfer revenues; publishing transfer figures; making audit findings publicly available; observing clear rules for responsible local borrowing; providing public access to borrowing information; and setting clearly defined rules for hard budget constraints on local governments.

Accountability measures focus on effective, efficient, transparent, and rules-based public financial management. The term “public financial management”²⁵ refers to all parts of the budgeting process and relates to both “upstream” (preparation and programming) and “downstream” (execution, accounting, control, reporting, and monitoring and evaluation) phases.²⁶

Fiscal decentralization depends on the ability of local governments to manage revenues and expenditures effectively, requiring strong institutions for financial accountability. Weak or absent local public financial management systems “are likely to negate any advantages that might be inherent in bringing public services ‘closer’ to local communities” (Ahmad, Albino-War, and Singh 2006: 405). Without sound local public financial management systems, financial accountability cannot be ensured, because local governments are vulnerable to waste, corruption, and inefficiencies (Baltaci and Yilmaz 2006). The weaknesses range from a lack of control systems for safeguarding against abuse, misuse, fraud, and irregularities (in Bosnia), to inefficient cash management, collusive practices in procurement, and weaknesses in internal control and audit (in India) (Baltaci and Yilmaz 2006).

Many public financial management systems do not produce information in a timely manner for people to keep track of service delivery expenditures. Due to long delays in conducting the audits and making the

²⁵ In practice, the terms “public financial management” and “public expenditure management” are used interchangeably to refer to all parts of the budgeting process.

²⁶ The Public Expenditure and Financial Accountability (PEFA) Initiative in this sense summarizes the core dimensions of good public financial management that promotes transparency and accountability in each step of the cycle (PEFA 2005). These include *budget credibility* (the budget is realistic and is implemented as intended); *comprehensiveness and transparency* (the budget and fiscal risk oversight are comprehensive, and fiscal and budget information is accessible to the public); *policy-based budgeting* (the budget is prepared with due regard to government policy); *predictability and control in budget execution* (the budget is implemented in an orderly and predictable manner, and there are arrangements for the exercise of control and stewardship in use of public funds); *accounting, recording, and reporting* (adequate records and information are produced, maintained, and disseminated to meet decision-making control, management, and reporting purposes); *external scrutiny and audit* (arrangements for the scrutiny of public finances and follow up by the executive are operating).

results public in many developing countries (Olowu 2001), the external audit is crippled as an accountability mechanism.

Policy-making and budget planning should be interlinked, because budgets are policy choices resulting from a compact with citizens. But in many countries, these links are not in place. More important, the lack of hard budget restraints on political decision-makers during the budgeting process leads to inadequate funding for operations and maintenance. It also leads to poor expenditure control and the unpredictable flow of funds to service delivery in health and education. Table 1 summarizes the shortcomings in financial accountability at the local government level in selected countries.

Table 1: Local governments and internal controls in selected countries

Country	Internal control system at the local level	Issues arising from a lack of internal controls
Argentina	Lack of legal instruments and no political willingness to improve internal controls and audit systems	High level of indebtedness in local governments and failure to provide urban services
Bosnia	Lack of contemporary internal controls and audit systems	Impaired safeguarding measures; abuse, misuse, fraud, and irregularities; widespread corruption; misconduct and misuse of public funds; and public disaffection with government institutions
China	Ex-ante expenditure control and compliance audits	Common problems in compliance with laws and regulations; unlawful tax practices
Colombia	Unclear legal framework defining the functions and responsibilities of the fiscal control agencies; ineffective internal control mechanisms	Negligence, corruption, and misuse of public funds
India—Karnataka State	Inefficient controls and audit practices, old-fashioned rule books, lack of timely and reliable information; focus on compliance audits and inadequate follow-up and audit findings	Frequent cases of abuse, misuse, and fraud; irregularities and malpractices in procurement; lack of coherence to the stated rules and procedures
Indonesia	Weak internal control and audit systems	Unethical and uneconomic operations due to pervasive corruption, inefficient cash management; and collusive practices in procurement
Philippines	Weak internal control environment, nonexistent internal audits, and lack of timely financial information	Lack of compliance with laws, rules and regulations; fraud and irregularities; and overpaid public purchase and procurement

Source: Baltaci and Yilmaz 2006.

4.2.2. Social Accountability Approaches

Social accountability mechanisms have emerged in response to the weaknesses of public financial accountability systems. The most common mechanisms include making local government financial information accessible to the public (including budgets and end-of-year financial statements); allowing strong public involvement in the budgetary process through participatory budgeting practices; and initiating independent budget analysis and participatory public expenditure tracking programs that monitor budget execution and leakage of funds.

Citizen participation in budgeting and expenditure processes. Citizen participation in budgeting and related processes, such as expenditure tracking, has increased substantially over the past few years. Until recently, budget processes were seen as purely technical matters and, for that reason, were dominated by the executive branch of national and local governments. The legislators and public often lacked the capacity to scrutinize budget processes, particularly at local levels.

Public interest in budgets has risen dramatically over the past decade. Today, legislators at national and local levels are becoming increasingly involved in budget debates, and the media are reporting the misuse

of public expenditures. Where targeted measures such as publicizing local government expenditures through radio or other media were introduced (Uganda), they have had a strong impact on preventing the misuse of public funds (Khemani 2006).

Civil society organizations have acquired skills and confidence to intervene in budget processes.²⁷ They have also developed tools to track budgeting, financial management, and execution. Independent budget analysis makes budget information available to the public, influences budget allocation and revenue policies, and initiates debate on sector-specific implications of budget allocation (such as gender implications). Generally, participatory processes have opened a public space to demand budget discipline, tax reforms, and local revenues.

Participatory budgeting forces municipalities to make budget information available to ordinary citizens and to report regularly on the status of execution of the previous year's commitments. As citizens gain ownership of the process, they are motivated to oversee the implementation of their approved projects. The deeper involvement of citizens in planning and budgeting creates conditions for them to demand accountability.²⁸

Grassroots organizations have also initiated performance-oriented ex-post auditing of local governments' accounts. By comparing the written records with the actual outputs and discussing them in public venues, citizens have forced local governments to answer questions. Has the local government spent its money on the goods and services that its accounting books say it has? Has it paid the market price to its providers and contractors? Have the purchased goods and services been delivered to their final destination in the quantity and quality paid for? One of the more remarkable examples is the social audit of local government managed public works programs in the state of Rajasthan, India (Jenkins and Goetz 1999).

²⁷ In 2006, the International Budget Project has launched an Open Budget Index for 59 countries in collaboration with researchers and nongovernmental organizations. The International Budget Project estimates that close to 100 organizations in 70 countries were engaged in this type of activities in 2005, compared with 10 organizations a decade earlier. See www.openbudgetindex.org.

²⁸ After its start in Porto Alegre, Brazil, in 1988, participatory budgeting has been taken up voluntarily by more than 140 municipalities in Brazil. In other countries, such as Bolivia and Peru, and in the state of Kerala in India, participatory budgeting is mandatory and regulated by national legislation.

5. Applying the Diagnostic Framework

To what extent should local governments be given discretion and autonomy over local decision-making? When different country contexts and conflicting interests come into play, the answer is not as simple as the theoretical framework suggests. As reforms proceed, questions will remain about who will have what kind of powers over what kind of functions. That is why decentralization reforms often face strong resistance during their implementation.

Coupled with the inexperience and weak capacity of local governments, decentralization is often blamed for not fulfilling its promises—and for not having a positive impact on development. So, reforms are frequently revisited and sometimes reversed. Many central governments around the world respond to such frictions by imposing stricter control and excessive accountability measures over local governments, sometimes revoking some crucial aspects of discretionary powers and resources extended to local governments. Yet, reducing powers and functions is not a form of accountability. It just makes local governments irrelevant. The cause of failure is the absence of effective accountability systems, both upward and downward.

A key message of this paper is that upward accountability mechanisms introduced by central governments are necessary but not sufficient to ensure appropriate local discretion. Without sound mechanisms for downward accountability, the sole emphasis on upward accountability measures limits local government autonomy in local decision-making and service delivery, negating the intended empowering of local governments.

Acquiring a clear understanding of potential conflicts is essential for successful implementation of decentralization reforms. So, it is important to invest in analytical and diagnostic studies that identify the characteristics of “local space,” the critical stakeholders, the sources of their power, their interests and positions in decentralization reforms, and the relationship between economic and social inequalities. The decision to decentralize is political. If the decision is made, the analytical framework presented here can help in studying implications of reforms for accountability.

Annex 1. Defining Discretion and Accountability

Representative local governments with meaningful discretionary powers are the basic institutions of decentralization. Public officials have discretion to use their best judgment in applying rules and policies to meet the public interest.^{29, 30} The premise is that public officials are knowledgeable and experienced in applying rules to particular situations, increasing the effectiveness of rules and policies, and improving performance. They are flexible and responsive to public needs and demands.

Accountability is a relationship between an *actor* and a *forum* (Bovens 2006; Pollitt 2003).³¹ Answerability and enforcement are the two concepts at the core of this relationship between the actor and the forum. Answerability is the obligation of the actor to inform the forum about his or her conduct and the forum's power to interrogate the actor and to question the adequacy of the information or the legitimacy of the conduct. Enforcement is the forum's power to pass judgment on the conduct of the actor—it may approve of an annual account, denounce a policy, or publicly condemn the behavior of the actor (Bovens 2006). Enforcement includes the possibility of positive and negative sanctions (Manin, Przeworski, and Stokes 1999)—but not necessarily their imposition. The possibility of sanctions “makes the difference between non-committal provision of information and being held to account” (Bovens 2006: 10). Both answerability and enforcement are necessary components of an accountability relationship—neither is sufficient by itself (Goetz and Jenkins 2005: 8).

Despite the benefits and practicality of discretion, there are tendencies for misuse and abuse of discretionary power. More important, public officials are in many cases influenced and captured by elite groups due to a lack of checks and balances, a situation that calls for safeguards. Yet, in many decentralizing developing countries, the capacity of enforcement institutions is weak, and it is weakest at the local level. Monitoring and controlling the exercise of discretion is a major challenge to decentralization reform.

²⁹ See Mawhood (1983), Ribot (1996), Romeo (1996), Crook and Manor (1998), Agrawal and Ribot (1999), Smoke (2000), and Mandondo (2000).

³⁰ See Handler (1986) for a general discussion of discretion.

³¹ “Accountability” is an elusive concept. Despite the fact that it has been often referred to as the cornerstone of good governance in development discourse, the scope and meaning of “accountability” has been extended in various directions to the point that it means different things to different people (Mulgan 2000).

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