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***Fiscal Decentralization in Developing Countries: A Review of Current Concepts and Practice*, by Paul Smoke, Published by United Nations Research Institute for Social Development, 2001.**

Since 1980s, fiscal decentralization has been at the center stage of policy experiments among governments of developing and transition economies in Latin America, Africa, and Asia. For example, world's two largest countries, India and China, have carried out the decentralization program, which helped these countries to achieve phenomenal industrial growth in the last two decades. These potential benefits of decentralization have attracted a large number of countries to see the process as a way to make government more responsive and efficient.

The review book by Paul Smoke entitled "Fiscal Decentralization in Developing Countries" examines the origins, conceptual foundations, and practice of fiscal decentralization in developing countries. The book has four major chapters and covers topics including historical basis of fiscal centralization and an emerging fiscal decentralization trend, theories of fiscal decentralization in light of developing economies, benefits and costs of decentralization, and elements of a good decentralization program. The book concludes with a summary of the key issues that are needed to design and evaluate an appropriate fiscal decentralization program.

The author begins the book with a historical look into fiscal centralization and explains why fiscal centralization has been very dominant in most of the developing countries that had slowed the process of decentralization in the regions where it needed most. Next, he provides reasons why fiscal decentralization is emerging in a number of developing countries. Failure of economic planning by central governments, changing international economic and political conditions, among others, have been identified as the major reasons for increasing support to institutionalize fiscal decentralization by developing countries in recent years.

In chapter 2 the author explains how the conventional fiscal decentralization theory (i.e., stabilization, distribution and allocation—commonly known as fiscal federalism), traditionally defined to be suitable for industrial countries, might also be appropriate for developing countries. For instance, macroeconomic fluctuations, limited local government participation and problematic revenue structure are often the problems of many developing countries than their industrial counterparts. In such cases, a well-coordinated stabilization program is needed to avoid such circumstances. He presents a detailed comparison of three African countries to demonstrate the significant differences in intergovernmental fiscal structure and the complexities of interpreting fiscal data.

Chapter 3 presents the benefits and negative effects of decentralization. The author raises many relevant questions and supports those queries by providing appropriate empirical evidences. First, he questions the validity of the definition of "fiscal decentralization" when it is used as the key independent variable in the regression equation. The author gives an interesting example and demonstrates that the existing definition undermines the true measure of fiscal decentralization. Second, he questions: Whether fiscal decentralization harms macroeconomic stability? Although empirical evidence on this issue is mixed, the author warns that mere decentralization would not

bring development, rather an appropriate structured system is needed that will bring discipline in the local government fiscal behavior and enables the creation of a climate conducive to private investment. Moreover, the author dismisses the idea that tax competition among local governments borne out by fiscal decentralization is likely to be a major problem both in industrialized and developing countries. Third, the author investigates whether fiscal decentralization has any negative effect on distribution and improves service delivery and revenue generation. Unavailability of data, varied country and sector-specific issue remain as the major problems to unearth the relationship more qualitatively. The author stresses on the need for further research on this topic. Finally, he argues that although fiscal decentralization may substantially improve local government participation, the issue whether it improves accountability of local government is yet to be seen.

The last chapter of the book (chapter 4) outlines some key elements of a good fiscal decentralization program. First, creating the appropriate environment; this includes, strong (national) political consensus, legal and constitutional support, neutral civil administration and a well-endowed local government are identified as the key preconditions in establishing a sustainable fiscal decentralization program. Second, in remarking on how to improve the revenue base of local governments, he suggests that instead of paying attention to too many minor taxes, the local governments should stress on major sources such as property taxes and user chargers, which substantially yield the local revenue base. The author reviews some important obstacles local governments in developing countries face in enforcing the property tax and recommends how to deal with the challenge. Third, since most of the local governments often suffer from fiscal deficit, the role of intergovernmental transfer program is crucial. He raises some typical issues and problems involved in designing an appropriate transfer program, which are very helpful for central governments opting fiscal decentralization. Fourth, the author discusses the existing practices of uses of loans and grants by local governments in developing countries. He stresses on the development of municipal credit institutions as potential sources of investment capital to local governments and reduces dependency on loan and grant. Finally, the author calls out for genuine support from the donor and international agencies for gradual and strategic implementation of the fiscal decentralization program.

The author concludes the book by offering a summary of the key issues relating to the design and implementation of the fiscal decentralization program. Throughout the book, the author highlights on the various economic and political challenges the developing countries face in undertaking such decentralization project. The diverse natures of the problem make the challenge unique to each country and have slowed the process worldwide. The book reviews many relevant studies and provides empirical support where needed. This is a must read book for practitioners for setting up the decentralization process and for researchers for future work in this important area.

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