

BOOK REVIEW

Local Government Finance: A Comparative Study

Dirk Brand. SUN Media, Stellenbosch, South Africa, 2016
ISBN 9781920689988

REVIEWED BY KRIGE SIEBRITS

Effective local government is vital for the provision of infrastructure, the delivery of various public services and the consolidation of democracy in South Africa. Yet it is well known that financial management and service-delivery problems are rife in the country's local government sector. Economists have much to contribute to ongoing debates about reforms to improve the functioning of this sector and much to learn from experts in other disciplines. Written by a legal scholar with the assistance of an expert on internal audit and risk management in the public sector, *Local Government Finance: A Comparative Study* is a relatively short book that explores local government finance in South Africa from the perspective of the governance model (instead of specific themes such as service delivery, revenue collection and debt administration). The aim of this review is to indicate its usefulness for economists who are familiar with economic research on the South African local government sector.

The eight chapters of the book form three distinct parts. The first two chapters set the scene. Chapter 1 summarises the local and international context for reflecting on local government finance in South Africa and provides an overview of the contents of the book. Chapter 2 outlines a conceptual framework by reviewing salient concepts, principles and structural aspects of modern-day models of local government finance. It draws heavily on the work of Richard Musgrave, Wallace Oates, Anwar Shah and other economists on issues such as the assignment of revenue sources and expenditure responsibilities among levels of government. The exposition is sound, but is unlikely to offer new insights to economists with a working knowledge of these ideas.

The next three chapters provide the basis of the book's comparative approach. Chapter 3 outlines salient aspects of the local government finance models of

two developing countries (India and Kenya) and three industrial countries (Belgium, Germany and the Netherlands). These include the taxing powers of and intergovernmental transfers to various types of local governments as well as local-government related governance challenges and reform opportunities. Chapter 4 contains a more detailed discussion of local government finance in Germany that focuses on the state of Bavaria. Chapter 5 provides a discussion of the financial governance of metropolitan areas. It focuses on the special challenges facing the local governments of such areas (for example, adaptation to the knowledge economy and service delivery in the context of rapid population growth) as well as various funding opportunities. Most economists would find interesting material in these chapters, especially as far as ideas for consideration in the South African context are concerned. As is the case throughout the book, though, the author prioritises breadth over depth: little analysis is offered of the theoretical and practical merits of the highlighted institutional features of various countries.

The focus of the book then turns to South Africa. Chapter 6, which is written by Deon van der Westhuizen, presents various financial and management ratios for five South African municipalities (George, Lukhanji, Matlosana, Mossel Bay and Swartland). The salient purpose of this chapter is to illustrate the usefulness of such ratios for analysing the efficiency and effectiveness of local authorities. It also helps to set the scene for the last two chapters by highlighting problems in the local government sector in South Africa. The material serves these purposes, but lacks detail and depth: It contains no reasons for the focus on these authorities, for example, hardly any background on their political and economic characteristics and little discussion of the indicators presented in a series of tables. Arguably the most interesting part of this chapter is the closing section, which contains recommendations for improving systemic discipline and effectiveness and efficiency in resource use in this sector.

Chapter 7 discusses international innovations in tax sharing, expenditure management and service delivery that might hold promise in the South African context. Finally, chapter 8 outlines key principles for financial reform in the South African local government sector and presents twelve recommendations for improving the division of responsibilities among the three spheres of government and strengthening the revenue base of local governments. These chapters, too, contain a mixture of interesting ideas derived from the practices of the comparator countries and familiar ones also found in official documents and publications by the Financial and Fiscal Commission, among others. The focus

remains on the presentation of themes and reforms; economists with expertise on issues such as public-private partnerships and intergovernmental revenue sharing are unlikely to find new insights in these chapters.

For this reviewer, the strongly normative focus of large parts of chapters 7 and 8 was problematic. The book contains many references to problems in the South African local government sector, but the closing chapters present some reform ideas without explicitly anchoring these in the realities of the country's political economy. To be sure, doing so would have yielded a different book from the one the authors had in mind, and one that policymakers may well have found less palatable. Nonetheless, the impact of the proposals in the book are undermined by the reality that it offers, for the most part, little beyond recognition of such constraints and general calls for remedial action. To name but one example: Economists are likely to find it hard to be convinced by recommendations on expanding the revenue base of South African local governments amidst overwhelming evidence of widespread graft and the inability of many municipalities to use their existing resources effectively. Hence, readers would have to apply ideas from public choice, mechanism design and other theoretical perspectives as filters when assessing many of the proposals in the book and for thinking through implementation issues.

The layout of the book is attractive and it contains hardly any language errors. Its readability would have been enhanced by more attention to conciseness and rigour in the formulation of sentences, though. Its value as a point of entry into writings on local government finance in South Africa and the comparator countries is limited to some degree by the omission of page numbers from many references, and several references to websites instead of specific pages or documents (for example, some references to the websites of Statistics South Africa, National Treasury and the World Bank in chapter 6 are unhelpful for anyone interested in consulting the original works).

In sum, *Local Government Finance: A Comparative Study* is a worthwhile read for economists seeking to brush up their knowledge of core aspects of intergovernmental fiscal relations or to find reform ideas for possible application in South Africa. Readers should not expect rigorous and detailed analysis, however: The aim of the book is to introduce a large number of relevant issues. Experts in intergovernmental fiscal relations are unlikely to benefit materially from reading this book.

About the reviewer

Krige Siebrits is a senior lecturer in the Department of Economics at Stellenbosch University, where he teaches Public Economics, Institutional Economics and Development Economics. His main research interests are fiscal policy in South Africa, fiscal policy institutions, and the interaction effects between formal and informal institutions. He holds a PhD in Economics from Stellenbosch University.