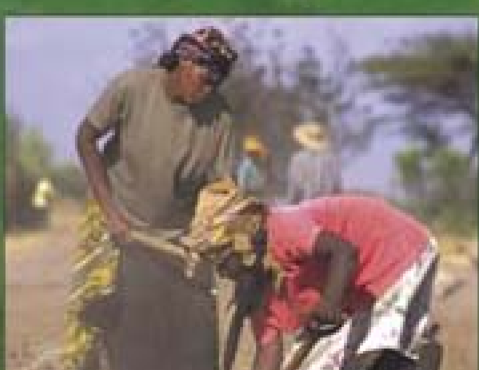
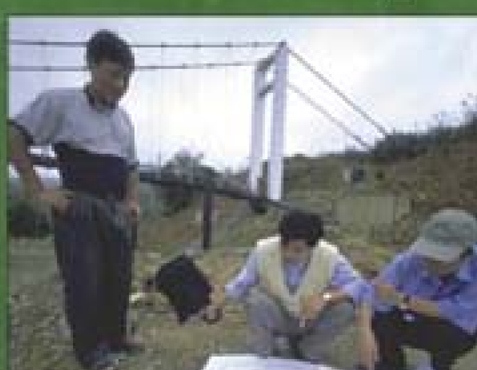
DELIVERING THE GOODS

Building Local Government Capacity to Achieve the Millennium Development Goals

A Practioner's Guide from
UNCDF Experience in Least Developed Countries


United Nations Capital Development Fund

Delivering the Goods

Building Local Government Capacity to Achieve the Millennium Development Goals

A Practitioner's Guide from UNCDF Experience in Least Developed Countries

October 2005

UNCDF

United Nations Capital Development Fund

United Nations Capital Development Fund
Two United Nations Plaza, 26th Floor
New York, NY 10017
web: http://www.uncdf.org
e-mail: info@undp.org

First printing October 2005

All references to dollars ($) in this publication refer to United States dollars, unless otherwise noted.

Library of Congress Cataloging-in-Publication Data

Authors: Roger Shotton and Mike Winter

Design and Production: Adam Rogers

Photo credits throughout: Adam Rogers / UNCDF

UN Publications Number: E.05.III.B.21
ISBN: 92-1-126172-4

Includes bibliographic references

1. Local Development.
2. Poverty – Developing countries.
3. Local Governance.
4. Millennium Development Goals.
5. Local Government.
6. Decentralization.

Printed in the United States of America
on recycled paper using environmentally-correct processes.

Table of Contents

BOXES

FIGURES

TABLES

Abbreviations and Acronyms

ADC	Area Development Committee (Malawi)
ADDCN	Association of DDCs - Nepal
ADP	Annual Development Plan Grant (Bangladesh)
CARERE	Cambodian Area Resettlement and Reintegration
CB	Capacity Building
CBF	Capacity Building Fund
CBO	Community-Based Organisation
CDDR	Capacity Development Drawing Right (Nepal)
CDS	Capacity Development Strategy (Nepal)
CDM	Municipal Development Committee (Nicaragua)
CO	Community Organisation
COPLAM	Municipal Planning Commission (Nicaragua)
CR	*Communaté Rurale* (Senegal)
CRD	*Communauté Rurale de Développement* (Guinea)
CRC	Citizen Report Card
CSO	Civil Society Organisation
DAC	Development Assistance Committee
DAG	Dis-advantaged Group (Nepal)
DCC	District Consultative Councils (Mozambique)
DDC	District Development Committee (Malawi, Nepal)
DDP	District Development Project (Uganda)
DFDP	Decentralized Financing and Development Programme (Nepal)
FY	Fiscal Year
GIS	Geographical Information System
HDI	Human Development Index
HMG/N	His Majesty's Government of Nepal
HR	Human Resources
HRD	Human Resource Development
ICT	Information and Communications Technology
IDA	International Development Association
IGFT	Inter-Governmental Fiscal Transfer
INIFOM	Institute of Municipal Development (Nicaragua)
IPF	Indicative Planning Figure
ISD	Infrastructure and Service Delivery
LBFAR	Local Bodies' Financial and Administrative Regulations (Nepal)
LC	Local Council (Uganda)
LDC	Least Developed Country
LDF	Local Development Fund
LDP	Local Development Programme
LDTA	Local Development Training Academy (Nepal)

LG	Local Government
LGA	Local Government Act (Uganda)
LGED	Local Government Engineering Department (Bangladesh)
LGU	Local Government Unit
LIP	Local Investment Programme
LPP	Local Planning Process
LSGA	Local Self Governance Act (Nepal)
MoU	Memorandum of Understanding
MC	Minimum Condition
MDG	Millennium Development Goal
MFI	Micro-Finance Institution
MIS	Management Information System
MLD	Ministry of Local Development
MLG	Ministry of Local Government
NEX	National Execution (UNDP)
NGO	Non-Governmental Organisation
O&M	Operations and Maintenance
O&OD	Opportunities and Obstacles to Development
OECD	Organisation for Economic Cooperation and Development
PEM	Public Expenditure Management
PM	Performance Measure
PMG	Planning & Management Guide
PMU	Project Management Unit
PRA	Participatory Rural Appraisal
PRSP	Poverty Reduction Strategy Paper
RIDEF	Rural Infrastructure Development Fund (Viet Nam)
SIF	Social Investment Fund
SLGDP	Sirajganj Local Governance Development Fund Project (Bangladesh)
SWAP	Sector-Wide Approach
ToT	Training of Trainers
TA	Technical Assistance
TCSP	Timbuktu Commune Support Project
UC	User Committee (Nepal)
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UP	Union Parishad (Bangladesh)
VDC	Village Development Committee (Malawi, Nepal)
WDC	Ward Development Committee (Bangladesh)

Foreword

This Practitioner's Guide has been long in the making – longer even than the 22 month gestation period enjoyed by elephants. But I believe that it has been worth it. It is an important publication for several reasons.

Firstly, and more parochially, UNCDF is an organization which has always prided itself on its internal learning and policy-development processes. We therefore attach a great deal of importance to this kind of attempt to capture and "codify" the various sorts of lessons which are emerging from our growing portfolio of Local Development Programmes – which are now active in some 25 Least Developed Countries. In doing so it also provides a common language or framework (a set of organizing "boxes") which can be used to continually update and further enrich the lesson-learning process in the future.

Secondly, however, I believe that this Guide should be of wider interest and application – both within UNDP and in the wider circle of development practitioners. The recent Millennium Report to the UN Secretary General highlighted the urgent need for "scaleable models" to ensure that basic infrastructure and service delivery is expanded sufficiently to meet the 2015 targets. The guidelines and lessons highlighted in this Guide provide the elements for developing such models:

- They focus on delivering those types of basic primary infrastructure and associated services that the poor need;
- They are geared to the specific challenges of rural and difficult areas – where the MDG deficits are greater and the problems in improving delivery far more daunting than in big cities, and where "good practices" are thin on the ground;
- They work on reforming delivery systems within the existing national policy and institutional frameworks of local government organizations and procedures, so that they can be the more readily adopted and upscaled (as they already have been in several LDCs);
- They are adaptable to differing contexts;
- They are based on live operational experience, and have a string of attested positive results to their credit.

As the Introduction makes quite clear this is not, however, a cookbook. It simply aims to provide a guiding framework, some insights, and continual reminders of the trade-offs and challenges to be faced for those who are charged with promoting better local infrastructure and service delivery and local governance in difficult areas. It is a first version – based on user and reader feedback. We hope to regularly revise, correct and enrich this Guide in later versions.

This Guide has been prepared as a collective effort by the staff of the UNCDF Local Development Unit. This effort was coordinated by Roger Shotton (Regional Adviser for Asia) and by Mike Winter (Affiliate Technical Adviser) who undertook most of the drafting and the compilation of lessons.

Specific contributions and critical commentary on earlier drafts were provided by Angelo Bonfiglioli, Leonardo Romeo, and Ron McGill (all UNCDF senior technical advisers) and by Joyce Stanley and Christian Fournier (UNCDF regional advisers in East/South and West Africa, respectively). Valuable feedback on the content and substance of the Guide was also provided at the UNCDF Asia Regional Workshop in Thailand in June 2005.

Hitomi Komatsu, Philippe Zysset, Florence Navarro, and Cyril Guillot (all UNCDF Programme Managers) provided reality checks at various points in the process and helped ensure that the content and style of this Guide matched the needs of the field, and avoided too many theoretical digressions.

Lou Leask provided a thorough edit of the text and brought it closer to the English of common usage.

Kadmiel Wekwete

Director – UNCDF Local Development

October 2005

Introduction

The rationale for developing this Practitioner's Guide derives from a number of considerations.

Basic Local Public Investments and the Need for 'Scaleable' Delivery Models

Firstly, there is now general agreement that a key part of any strategy for poverty reduction and for achievement of the Millennium Development Goals lies in improved delivery of basic public infrastructure and related services. This point has been forcefully made in "Investing in Development"[1], which calls for a major increase in funding for public investments, for poor people and in poor areas – and also calls for the rapid deployment of locally appropriate and replicable delivery systems to ensure effective absorption of funds for delivery of this infrastructure on the scale required. The Millennium Project report also endorses the now widely-held view that much of this basic infrastructure is most appropriately delivered locally, through decentralized financing, planning and delivery systems, and that local government bodies should play a key role in this.

The challenge is then to devise or to reform local infrastructure systems, to ensure that resources allocated for local public expenditure on pro-poor investments are used effectively, efficiently, equitably and accountably; this is the more urgent insofar as there are, sadly, good reasons to predict that the resources allocated by governments and development partners for pro-poor investments will fall short of the target levels, and hence, more than ever, those resources which are forthcoming need to be used to greatest possible effect.

The Knowledge Gap

Secondly, however, there is surprisingly little useful, codified knowledge relevant to this major challenge. There is much normative literature which prescribes the need for greater decentralization and subsidiarity, and which advocates the virtues of greater public participation in local government affairs and of more effective local accountability. But there is surprisingly little literature providing guidance as to how such principles are to be translated into practice within the institutional realities of specific national decentralization frameworks and local government systems, and within the current operating procedures and the other constraints of real life in poor areas.

---

[1] *The endnotes begin on page 244.*

There is indeed a growing body of frequently-cited good practice in local infrastructure and service delivery: the innovative experiments in participatory budgeting in Porto Alegre and elsewhere in Brazil, the citizen scorecards for service delivery monitoring in Bangalore, private-public partnerships in very many countries, etc. But almost invariably these innovative and important practices are developed in urban settings.

The greatest MDG "deficits" still lie in rural Asia and rural Africa where, by far, most poor people still live, despite the rapid urbanization of the past decades. Yet the challenges for improving infrastructure and service delivery in these rural areas, by rural local governments, are in many ways qualitatively very different and frequently far more daunting than those in urban areas. Recipes which work for improving big city infrastructure delivery are often quite inappropriate when applied at the rural Commune level.

There is then an important "knowledge gap" facing policy-makers and practitioners who are intent on promoting improved local infrastructure and service delivery, in a sustainable and replicable manner, in those areas where these improvements are most needed.

UNCDF's Local Development Experience

This Guide, based on operational experience, is intended as a modest contribution to addressing this gap. Over the past decade UNCDF has built up a portfolio of Local Development Programmes[2] (LDPs) in the Least Developed Countries, primarily in Africa and Asia. Although these LDPs operate in very different national contexts – and are tailored accordingly – they all embody a common strategy. They aim to promote more effective, efficient, equitable and accountable infrastructure and service delivery through rural local governments, by twinning innovations in funding mechanisms with other "capacity development" innovations in planning, budgeting, delivery and accountability arrangements. These innovations are piloted through reforms designed as far as possible "within" the current institutional framework (rather than being designed ex novo, according to some ideal model), and so can be used as a basis for promoting wider national policy change and replication – in other words the emphasis is precisely on promoting the sorts of "scaleable" local delivery systems advocated by the Millennium Project.

The experience is also credible. In a relatively short period of time the very modest investments in this LDP portfolio have yielded substantial dividends, contributing to reform of decentralization policy and of local delivery systems in many of the LDCs where UNCDF has been active, and which have been documented in a number of independent evaluations. The LDP approach has indeed been singled out for praise as the "only" successful sustainable and replicable approach by the recent OECD DAC Review of Donor Support to Decentralization[3].

The Role of the Guide

This Guide leverages UNCDF's experience, and presents a mix of guidelines, lessons and anecdotes (positive and not so positive) derived from practice. It aims to inform practitioners on the front line, charged with designing, implementing or supporting programmes aimed at promoting local development, building local government capacities, and devising decentralized infrastructure delivery models which have some chance of replication outside the "project confines".

It should be stressed that this Guide does not pretend to be a prescriptive "cookbook" – it rather aims to provide a framework of the issues which typically arise in such programmes, and to give a sense of the considerations, trade-offs, risks and nuances to take into account.

UNCDF intends to make regular updates and revisions of this Guide, as further lessons are learned and its LDP experiences deepen – for this, regular feedback from users and practitioners is essential. To this end, a space for reader feedback, critique and comment will be provided on the UNCDF website.

Overview of the Guide

Chapter 1: Local Development Programme Strategy

This chapter presents the origins and logic of the LDP approach; it then articulates the various context considerations which go into determining the policy-reform and institutional strategy of an LDP; it outlines the options for deciding on the geographic focus; and it sets out the determinants of the poverty-reduction strategy. It closes with an Annex which provides a more detailed methodology for appraising the national and local institutional context of decentralization and local government.

Chapter 2: Financing Strategy

This chapter provides a framework for thinking about local government funding, within the broader context of centre-local funding, and within this it situates the LDP as a strategy for piloting unconditional block grant transfers. It proceeds to detail the various factors which should determine both the absolute levels of funding; the mechanism for allocating funds to individual local governments; and the rationale for allocating funds to lower-level bodies in rural areas. It then introduces the notion of performance-based funding to local governments, a particularly promising LDP innovation, and the conditions for this. The Chapter then addresses strategy issues in regard to local resource mobilization and "matching" contributions, and the dangers often inherent in the conventional approaches, and finally covers management and control of funds; a postscript deals with some of the more specific issues faced in ("Francophone") single treasury systems.

Chapter 3: Local Public Expenditure Management: Planning & Budgeting, Implementation, and Operations & Maintenance

Chapter 3 is presented in four sections:

Part I provides the broader context of local planning within a PEM framework, and the importance and problems of promoting participation in this.

Part II situates the LDP planning support strategy within this broader context, and articulates a framework for addressing local government planning and budgeting. Special attention is paid to the often-neglected institutional dimension of the local planning and budgeting process, and to the areas where "institutional innovations" are needed and have been introduced. This is followed by a treatment of the annual planning process and its tie-in to the budgeting cycle, a break out of the key steps in this cycle, and then by a highlighting of some typical problems faced at each step, and illustration of some of the tools which LDPs have trialed to facilitate these steps to ensure consistency and transparency.

Part III then addresses issues in implementing plans and actually producing the infrastructure – again an area often neglected. It presents a framework for looking at implementation options, by detailing the various tasks to be undertaken and the roles to be played, by illustrating both the scope and the limits of involving the private sector and community groups; throughout, the typical difficulties encountered in poor rural areas are highlighted. A postscript provides a reminder of the points in this phase where corruption is possible.

Part IX looks at the issues in asset management or long term operation and maintenance of these investments. This again provides a framework for looking at O&M options – and for determining where and for what types of infrastructure community O&M is feasible and where, conversely, it is not and where this task must be left to government.

Chapter 4: Accountability, Communications & Information

This chapter outlines the various ways in which mechanisms for accountability can be promoted, to ensure that local PEM and infrastructure delivery is effective, efficient and equitable. It first deals with practical issues surrounding the physical availability of information in the rural local government setting. It then addresses the "downward" accountability challenge: first, by examining how local government-citizen accountability issues can vary by institutional context; and then by setting out the different ways by which information can be made more available to the public. It similarly addresses the challenge of ensuring "horizontal" accountability of the local executive branches to the local council, and how this too varies by context, and indicates some ways this relationship can be strengthened. In closing, it looks at issues in the accountability of local to central government.

Chapter 5: Capacity Building

This final chapter addresses more squarely the theme of CB. It begins with a framework to help identify the possible constraints on LG performance which require remedial action, and a reminder that very often the key underlying problem is the inadequacy of the systems, procedures and incentives within which people have to work – and that the thrust of the innovations covered in Chapters II, III, and IV above is precisely to address these constraints. Where the problems are due to human resource constraints, the chapter spells out the types of remedy which may be possible, and highlights the typical skills which may need to be imparted, and some of the options for imparting them. LDP innovative experience in devising "demand-driven" CB mechanisms for LG personnel is also introduced. Finally, measures to address logistical constraints on performance are also covered. Throughout, this chapter seeks to remind the reader that CB is more akin to a performance art or a sport where skills can only be fully acquired by "doing," and that the conventional dictum "no decentralization of responsibility until LG capacities are in place .." makes little sense and should be reversed.

Chapter 1: Local Development Programme Strategy

About this chapter

This Chapter presents the origins and logic of the LDP approach; it then articulates the various context considerations which go into determining the policy-reform and institutional strategy of an LDP; it outlines the options for deciding on the geographic focus; and it sets out the determinants of the poverty-reduction strategy. The related Annex beginning on page 223 provides a more detailed methodology for appraising the national and local institutional context of decentralization and local government.

Questions addressed

How is the overall LDP Strategy determined in a particular country context?

How is policy impact strategy established?

How is the institutional focus determined?

How is the geographic area decided?

How is the underlying poverty reduction strategy determined?

What is the significance of LDP strategy in a post-conflict situation?

A. Local Development Programmes: The Approach

1. Origins

The LDP is a programming instrument that has been developed by UNCDF through ongoing experiences in some 25 countries with the aim of "operationalizing local governance support". The approach itself is the outcome of an extended process of lesson learning that has evolved through several steps:

a. *From project-driven infrastructure delivery…* For many years UNCDF supported local development in LDCs, primarily in rural areas, through conventional 'project mode delivery of basic infrastructure (water supply, irrigation systems, roads, schools, clinics, etc.). However, chronic problems with this approach (investments that did not correspond to local needs, lack of local ownership, insufficient attention to maintenance, etc.) indicated that a change of strategy was needed;

b. *… through local government as an agent for change…* The new focus worked through local institutions – primarily local government bodies – as channels for planning and managing infrastructure delivery. It became apparent that in order to take on this role, these bodies themselves required support and needed to work in closer partnership with civil society and other local actors;

c. *… and local institutional development…*The Local Development Programme approach thus emerged as a strategy with a twin focus: maintaining the objective of improving delivery of local infrastructure and services for poverty reduction through local government bodies, while using this as a process to strengthen the capacities of these bodies, enhance local accountability mechanisms and promote local partnerships. The latter focus on local capacity building goes far beyond mere training and human resource development: by using the allocation of capital budgetary resources as a 'pretext' for piloting improved and innovative systems and procedures for their planning and management, it facilitates institutional development and on-the-job learning by local bodies.

d. *… to policy leverage.* More recently, a third 'upstream' area of LDP focus has also emerged: leveraging the innovations piloted at local level as real-time policy experiments in order to influence national decentralization policy and support wider replication.

2. Main Features

It is also worth underlining one further particularity of the LDP approach – its prime focus on rural (as opposed to urban) local government and governance. This is largely because the rural dimension to poverty is, in most developing countries, very marked. However, the challenges to addressing local government infrastructure and service delivery issues are intrinsically greater in poorer rural areas than in urban contexts. These challenges relate both to the demand for and supply of infrastructure and services:

Box 1: The Local Development Programme: an overview

Local Development Programme (LDP) is a generic term for a local programming strategy that has been successfully piloted by UNCDF in a range of countries, with substantial impact not only on local service delivery, capacities and poverty reduction, but also on national policies.

The LDP strategy is to build capacities through much more than simple training. The aim is to develop improved procedures and systems (for local planning/budgeting, etc.) that will be managed by local bodies, thereby enhancing the pro-poor delivery performance of those bodies (effectiveness, efficiency, accountability); and to introduce these alongside real budgetary resources, allowing real-time learning-by-doing and credible policy piloting.

In addition, LDPs focus mainly on local governance in rural (as opposed to urban) environments, in recognition of (i) the generally higher incidence of poverty in such areas, and (ii) the concomitant need to strengthen and improve rural local government service delivery functions and management (about which rather less is generally known than is the case for urban local government).

What are the key features of a Local Development Project (LDP)?

- *Sub-national institutional focus:* improving local governance by supporting the institutional development and inter-relations of sub-national government and community institutions in a selected area, with special focus on improving systems and procedures for delivery of basic pro-poor infrastructure and services, and local management of public expenditure;
- *Innovation in practice and procedures*: improved procedures and practices for local planning and budgeting, procurement, implementation, management and monitoring, and overall enhancement of the effectiveness, efficiency and accountability of local bodies;
- *Performance-linked funding facility*: a local development fund facility allowing regular, transparent and sustainable allocations to local bodies and tied to agreed measures of local performance, as an incentive for local capacity building;
- *Policy pilot*: pilot activities that are policy-relevant, and which can be scaled up, working as far as possible through statutory bodies and procedures (rather than creating parallel structures), to assist both the reform and implementation of national policy in decentralization and local governance, fiscal decentralization and local service delivery, and local public sector reform. In some countries, where there is clear policy commitment, this piloting is in explicit agreement with national/local governments, and aims to develop the 'how to ...'; in others, where policy commitment is more uncertain, the aim is rather to show what can be done at local level, to promote advocacy for national policy reform.

What is the typical structure of an LDP?

Typically, an LDP comprises three complementary components or sets of activities:

- Support for local capacity building within sub-national government and community institutions: trialling/development/extension of local planning/budgeting and management systems and procedures, training, basic logistical support, etc. (usually jointly funded by UNDP and UNCDF);
- Establishment of a local development fund facility to allow financing of investments generated through the local planning/budgeting process (funded by UNCDF);
- Support at national level for capitalizing the policy lessons learned, raising awareness of policy issues, scaling up and supporting development of the policy, legal and regulatory framework.

- Devising demand-driven planning procedures in rural areas may indeed be harder – due to a relatively ill-educated and dispersed citizenry, very limited channels of communication, the relative weakness of horizontal associational activity, relative prevalence of vertical patronage relations, and so on;

- Devising effective and efficient local government supply may also be harder in rural areas – due to basic human resource limitations of LGs; the typical institutional 'split' between local technical agencies and elected 'transaction cost' factors; the lack of supportive oversight by higher levels of government; and, all too often, to a policy, legal, regulatory and financing framework that constrains the responsiveness of rural LGs.

Table 1 on page 14 provides a more detailed – albeit very simplified – comparison of the differences between rural and urban contexts, and spells out some of their possible implications for local government service delivery.

Figure 1: Local Development Programmes: The Logical Architecture

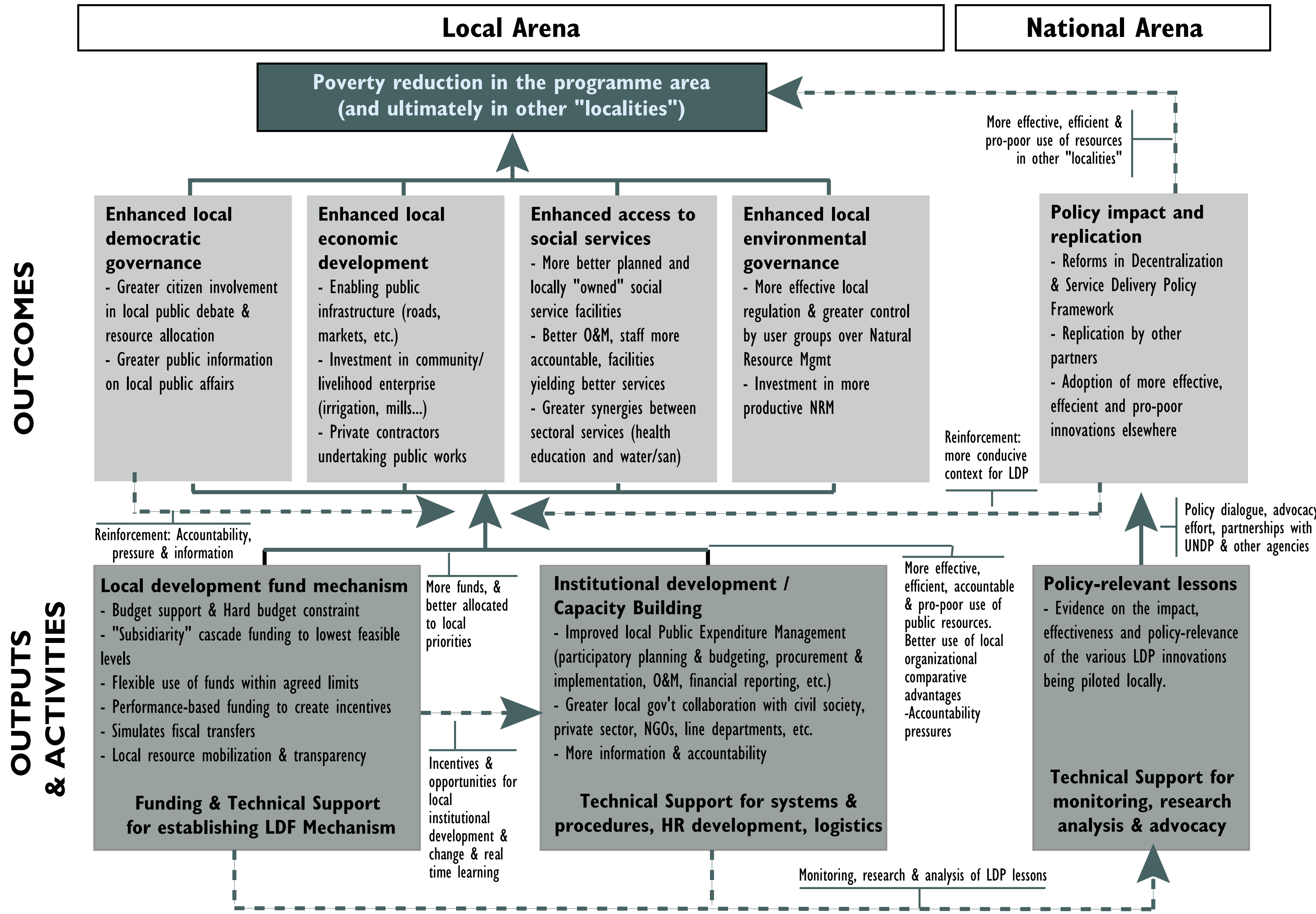


Table 1: Rural/urban contrasts in local government service delivery in developing countries

Feature	Urban areas	Rural areas	Implications for rural LG
Professional staffing of LGs	More attractive to qualified staff	Less attractive to qualified staff	Lower overall human resource capacity
Elected members of LGs	Likely to be better educated	Less likely to be well educated	Lower overall human resource capacity; greater difficulty in holding technical staff accountable
Relations between local council and local administration & line departments	Line departments likely to be under council control	Line departments likely to be deployed at 'higher' level, and not under local council control	More limited and less reliable access to technical expertise; more problematic coordination of activities and budget allocations for ISD within the same sector; line staff less accountable to elected representatives
LG financial resources	Greater fiscal potential	Lower fiscal potential	Limited financial resources derived from local revenues; less capacity to finance recurrent and capital expenditure; greater dependence on fiscal transfers
Population density	High population densities	Low population densities	Participation more costly; access to and use of services more time-consuming
Distances and transport facilities	Proximate and abundant	Longer distances and fewer transport services	Participation more costly; more difficult to establish and maintain contact between locally elected representatives and their constituencies; more difficult for councillors to attend LG meetings/sessions
Literacy and education	Higher literacy rates, better educated public	Lower literacy rates, less educated public	Lower overall human resource capacity; reduced impact of written information; less self-confidence
Income poverty	Less poverty	More poverty	Reduced fiscal base; reduced possibilities of cost recovery
Media	More diverse and better developed media	Weak media	Reduced likelihood of media oversight – less likelihood of non-institutionalized transparency and accountability
Private and/or NGO sector	Better developed	Poorly developed	Fewer service 'exit' options for rural clients; fewer benchmarks for assessing quality of LG service delivery; less technical capacity for IS production; less competition for tenders and higher costs for ISD
Society	Better-developed civil society institutions; traditional hierarchies less predominant	Less developed interest-based associational civil society; dominance by traditional social hierarchies	Greater likelihood of elite capture; less likelihood of women's active involvement in public affairs; less likelihood of downward accountability

Readers are advised to consult other UNCDF publications for more details on the general Local Development Programme approach to local governance and poverty reduction. These can be found on the UNCDF website at www.uncdf.org.

3. Introducing the Strategy Questions

The LDP approach outlined above should not be seen as a blueprint, as it will need to be tailored to each country context. Programme strategy and focus may often need to be changed as the context evolves, which will require awareness of the reasoning and assumptions underpinning the original strategy and focus.

The key elements of programme strategy and focus to be tailored have been grouped under the following headings and are examined in the sections indicated below:

- Policy impact strategy (see Section B below)
- Institutional strategy – (see Section C below)
- Geographic strategy – (see Section D below)
- Poverty reduction strategy – (see Section E below)
- Strategy in post-conflict and conflict situations – (see Section F below)

An important part of the process of developing strategy is 'mapping' the institutional context. A guide to this exercise is included in the Annex to this chapter beginning on page 225.

B. Policy and Policy Impact Strategy

Although they are intended to provide direct benefits to the poor, LDPs are also designed to impact on decentralization policy 'upstream'. This section and the following section on institutional strategy build on the mapping exercise described in the Annex in order to guide the strategic policy focus of the LDP.

1. Framework of Policy Domains

LDP strategy seeks to maximize the leverage and national impact of what are usually relatively small projects. Because of this, it is important for UNCDF to have a clear idea of the areas of policy challenge that need to be addressed by the LDP, and the kinds of innovation that should be promoted for wider replication. (See UNCDF [2002], *Policy Impact and Replication,* available at www.uncdf.org).

At this point it would be useful to clarify exactly what is meant by 'policy'. Schematically, we may posit four domains of national policy issue, ranging from broad macro-policy to detailed micro-policy questions:

i. **National political stance and broad policy direction.** This level concerns the broad political options and direction taken by national political authorities with regard to decentralization and local governance. It is often tied to wider debate within political forums (if this exists) and to pressure from parties, civil society, advocacy groups and the media (and, to some extent, from donors).

The sum of the positions taken (or not taken) on these options will comprise the national political stance, and will determine the overall enabling context for local governance. Policy at this level may or may not be consistent, well articulated and documented (in Cabinet papers, White papers, presidential statements, party resolutions or manifestos, etc.), and different national authorities may also hold different views;

ii. **Legislation and the statutory framework.** Sooner or later, national political direction is further articulated and implemented through legislation. This legislation will spell out in more detail, and in a manner that allows for state enforcement, government position on the various options highlighted under i. above. Draft legislation (such as a Local Government or Decentralization Bill, or subsidiary Bills) is usually prepared, debated, reviewed and approved by government, then submitted to national parliament for further scrutiny, debate and final approval.

The principles and statutory provisions expressed in such legislation (which may be vague or detailed, expressly designed or carelessly drafted, consistent or inconsistent with other standing Acts, or even neglected) themselves come to constitute the legally sanctioned instrument of national policy until they are amended by subsequent statutes. Again, such legislation may be more or less detailed, consistent and practicable, and may be more or less favourable to good local governance;

iii. **The regulatory framework.** In order to be implemented, many aspects of the legal framework require further translation into more detailed ministerial decrees, directives, regulations and circulars regarding, for example, the functioning of local government councils and the committee system, arrangements for local government financial management and accounting, etc.

This body of formal, detailed directives constitutes the regulatory framework. This framework is often imperfectly developed and may not only lag behind the development of policy and legislation, but even be partly inconsistent with it;

iv. **Norms: systems, procedures, guidelines and practices.** Finally, national policy is also expressed in less formal norms: the systems, procedures, guidelines and practices that are officially accepted and promoted, even though they may not be uniformly adopted nationwide – such as local government planning guidelines, training manuals, communication and monitoring arrangements, etc.

These sets of norms may be more or less consistent with broad national political direction and legislation, may or may not be codified and formally endorsed, and may vary substantially between different parts of the country.

Table 2 uses these categories to outline the range of different types and areas of decentralization policy within which the LDP may determine its specific goals, and which lie somewhere on the spectrum between macro-policy and micro-policy.

Table 2: Overview: The Spectrum of Possible Policy Impact Goals

Macro-policy ←→ **Micro-policy**

i. Broad policy direction	ii. Statutory and legal framework	iii. Regulatory framework	iv. Norms: prescribed systems, procedures, guidelines and practices
Official positions and statements (e.g. Cabinet papers or other pronouncements) on options such as: • Whether or not to constitute elected local authorities (devolution vs deconcentration); • Number of tiers of sub-national government; • Urban/rural distinctions; • What powers, staff and fiscal resources will be entrusted to them and how; • The nature of local political representation; • Role and functions of local authorities; • Role of sector ministries vs local area authorities; • How they should relate to parliament, central government, civil society, and traditional authorities; • What autonomy they should enjoy; etc.	Constitutional and legal provisions: their adequacy, clarity and consistency with broad policy and existing laws, and internal consistency with regard to issues such as: • The role, functions and powers of local governments; • Make-up and internal constitution of representative councils; • Relations between local legislature, executive and central government; • Relationship with the public, civil society and traditional authorities; • Relationship with other tiers; • Relations with civil servants; • Fiscal powers and transfer arrangements; etc.	Ministerial regulations, directives, circulars: their adequacy, clarity and consistency with national policy and legislation, and internal consistency on such issues as: • Channelling of funds to local government; • Local government financial management and accounting; • Local tax collection; • Preparation of local government plans and budgets; • Procurement procedures and limits; • Staff hiring and management; • Role, constitution and running of local committees; • Council business, minutes, communications to the public, etc.	Officially endorsed or accepted systems, procedures, guidelines and practices: their consistency with i, ii and iii, effectiveness, efficiency, fairness, transparency and reflection of best practices on such issues as: • Local planning and budgeting; • Delivery of local investments and services; • Interaction between elected representatives and citizens; • Staff management; • How to organize community self-help; • Interaction with the private sector or NGOs; • Interaction with deconcentrated sector departments; • Capacity building, training, monitoring, communications, etc.

2. Qualifying Remarks on the Framework: A Caution

Before going any further, certain points should be stressed in order to guard against too simplistic or mechanistic a reading of this framework.

It may be tempting to view the development of national policy on decentralization and local governance as a gradual linear progression from macro- to micro-policy. There is of course some validity to this, since if there is no national political commitment to devolution and establishing local government, and no legislation embodying this, policy issues regarding detailed regulations or procedures for local governance scarcely arise.

However, this does not rule out progression from changes in norms and micro-policy to consequent changes in macro-policy. The impact of micro-policy on norms can affect policy in other domains. For example:

- Successful experience in trialling local planning and financing norms, systems and procedures (on a limited scale) may well feed into the national policy debate by showing that 'things can work' at local level, thereby strengthening the hand of those pressing for commitment to decentralization.
- Likewise, successful experience in implementing specific participatory planning guidelines may then be endorsed in the stronger policy form of prescribed regulation, or even in amended legislation.

Of course, it is precisely this sort of dynamic that lies at the heart of the rationale for pilot programmes. Linkages thus work in both directions across the spectrum of policy domains.

Generally, it should be stressed that policy development in decentralization and local governance is an ongoing, dynamic process, creating 'ripples' that may serve to advance or reverse policy, even in a country where the principle of devolution is well accepted, and laws, regulations and systems are in place:

- There may be periodic rekindling of debate aimed at further advancing certain aspects (e.g. increasing the functions or resources of local authorities), which will in turn have legislative and regulatory consequences;
- Conversely, a change in government, a national political or economic crisis, or pressure from the donor community (intentional or otherwise) may lead to the reversal of previous policy, with positive or negative effects.

3. Context Factors Determining Policy Impact Strategy

Within this framework, the types of policy challenge to be addressed by the LDP will depend on a number of factors. These are outlined below.

National political commitment to decentralization

The extent to which there is a detailed national policy agenda for decentralization, and thus a clear articulation of national policy concerns, will determine the appropriate LDP policy impact strategy.

- Where such a policy agenda exists, the role of LDP designers is largely to engage with policy makers in exploring specific areas of policy implementation where piloting is deemed useful. Here the strategy mainly involves using the LDP to inform the 'how to' element of policy, thus focusing more on micro-policy (right end of the spectrum in Table 2 above).
- Where no clear policy agenda exists, or where the direction of decentralization policy remains unresolved, the role of the LDP is to demonstrate that some degree of decentralization and empowerment of local government is indeed feasible, that local bodies can manage resources responsibly, and that it can be supportive of the broader policy objectives of poverty reduction and democratization. In such cases its role is more to inform advocacy activities as to 'whether' to decentralize, using the results of tentative micro-policy experiments to influence macro-policy, and to support the arguments of those advocating for change.

Historical experience of local government

Apart from the strength of national policy commitment, another important factor shaping LDP strategy is the history of decentralization and local government in the country concerned. It should be remembered that governments in countries with a long history of local government are not necessarily more committed to decentralization than newcomers to this particular scene. Ample evidence of this is provided by the recent impasses and reversals in decentralization policy in Kenya, Zambia and Bangladesh, all countries with a long tradition of local government. Historical experience may determine LDP strategy in various ways:

- Countries with a long history of local government are often faced with a challenging accumulation of well-established procedures and precedent, frequently enshrined in regulations that may be hard to change even if they are not conducive to good governance or efficiency. Bangladesh is a case in point, with over 150 standing orders and circulars on local government management dating from the early 1900s, some contradictory and some vague. Here there is as much need for informed advocacy on issues of macro-policy as there is for reform of the micro-policy environment.
- In countries where little has ever been done in the way of devolving financial, planning and budgetary functions to local governments, LDPs probably can and should address a wide range of broad policy issues.
- Where decentralization is further advanced, LDPs are more likely to have a narrower and more specific focus on selected issues, such as local government finance.

Other donor activity

The extent to which other donors support decentralization is also important. Where there is considerable support from other donors, LDPs will need to ensure that their policy focus is synergistic. In Nepal, for example, strong donor support for decentralization has resulted in an LDP that focuses on quite specific policy issues of local government finance and improving the more 'technical' aspects of the local planning process (project appraisal, selection, design and costing).

4. Illustration: Applying the Framework in Bangladesh

The matrix shown in Table 3 illustrates the use of this policy issue framework to identify policy constraints, and hence LDP policy impact goals and strategy in Bangladesh. As the political and institutional parameters of local government are long established in Bangladesh, the main focus of the LDP is to work within these parameters and help reform policy on fiscal decentralization and local infrastructure service delivery.

Thus, the columns of the matrix set out the four policy domains, while the rows outline the main elements of local infrastructure and service delivery, from planning and budgeting down to financing. The matrix provides a clear indication of:

- The specific policy constraints for each of these activities, *and*
- The piloting, advisory and advocacy strategies to be deployed in each case.

C. Institutional Strategy

1. Sub-National Level of Focus

The level of sub-national government that is to be the primary focus of an LDP is a key issue. Obviously, this is largely determined by the existing structure of local government and the nature of relations between the different tiers of local government.

Where higher-level sub-national tiers have a clear mandate to mentor and monitor lower- level tiers of local government, it makes sense for LDPs to operate at both levels, although the focus of interventions may well vary according to the level. This is commonly the case in countries where the institutional framework has been strongly influenced by anglophone traditions of local government (e.g. Uganda, Tanzania, Nepal).

In countries where the different tiers of LG have no significant functional relationship (most commonly those with a French legal tradition), the obvious starting point for LDPs is to operate at the lowest feasible level. Thus, LDPs in countries like Mali, Senegal and Guinea have primarily focused on supporting communes, *communautés rurales* and *communautés rurales de développement*, respectively. Nonetheless, there may often be a need to work at higher levels (cercles, départements, régions), if only because state technical services tend to be located at those levels, and in order to address more strategic issues.

Table 3: Local Infrastructure & Service Delivery Policy Issues in Bangladesh: an Analytical Framework

Infrastructure & Service Delivery by LGs in rural & urban areas	**Illustrative Problems in the Different Policy Domains**			
	i. Political Stance & Macro-Policy Broad stances & attitudes	ii. Legal Framework Parliamentary legislation	iii. Regulatory Framework Circulars, ordinances, rules	iv. Local Practice: Norms, procedures and systems
1. Planning & Budgeting • Public voice/input • Preparation of feasible proposals • Pro-poor decisions • Integrated planning and budgeting	Poor recognition of LG service delivery role in official statements (even IPRSP)	LG legal service mandates unclear or weak	Unclear planning role of women UP members in ministerial circulars	No appropriate, tested procedures to link PP and annual LG budgets, or pro-poor decision-making
2. IImplementation & Delivery • Procurement • Technical support • Collaboration with private sector, NGOs			Limits to LG procurement powers	Little guidance and few aids for contracting or basic design/supervision practices
3. Management & Monitoring • Accounting & reporting • Control & audit • Public oversight		No legal obligation for LG to account to public		Poor financial management and auditing procedures
4. Financing • Local tax/other revenues • Central-local transfers • Community resources • Other sources	National elites mistrust LGs, fears regarding misuse of funds; MP interests to maintain patronage	Weak local tax powers No legal provision for IGFT	No ADP block grants	Little guidance on local tax administration
Desired Programme Outcomes	Greater recognition of LG role and willingness to devolve power and funds	Clearer and more empowering legal framework for LGs	Clearer, more consistent and conducive regulatory framework	More appropriate procedures for planning, delivering and managing services
Programme Strategies & Instruments	Show lessons of what "can be done" and advocate change	Show implications of current frame and advocate and advise change	Show implications of current frame and advocate and advise change	Pilot innovative procedures, show lessons and advocate adoption

Box 2: LDP Policy impact strategy: cases from various countries

Mali (1999): The government had a very strong political and policy commitment to decentralization, and a clear implementation strategy for this. Therefore the role of the LDP was to pilot very specific institutional innovations agreed with the national authorities: participatory planning procedures for infrastructure delivery through the communes; performance-based block grant funding; sustainable mechanisms for local capacity building; etc.

Cambodia (1995): There was some interest in decentralization in Cambodia, but no broad commitment or policy. In this case, the role of the LDP was to show that local commune committees could play a useful role in basic infrastructure delivery as embryonic local governments, and also manage funds sensibly. Coupled with upstream advocacy, this experience served to strengthen the hand of those arguing for decentralization, becoming the inspiration for subsequent policy and providing the model for the 2001 Commune legislation. 2003. Now that Government has adopted a clear policy direction, the strategy for UNCDF has changed. The focus is now to assist with piloting of more specific policy measures in the field of fiscal decentralization, and with arrangements for decentralized service delivery. By 2003 the government had adopted a clear policy direction, and so UNCDF strategy changed to focus on assistance with piloting more specific policy measures in the field of fiscal decentralization and arrangements for decentralized service delivery.

Uganda (1997): LDP Phase 1 was formulated to support the implementation of early policy and legislation, with a broad focus on piloting procedures for financing, planning and managing local infrastructure and service delivery through local government. These procedures were rapidly adopted and mainstreamed into national policy. Phase 2 was therefore designed with a much more specific policy impact focus: on the one hand, refining participatory planning and better integrating it with budgeting; on the other, extending piloting to the newer areas of local revenue enhancement and local administration of justice, while addressing more squarely issues of gender mainstreaming.

Conversely, where viable local institutions already exist below local government, the strategy is also to encourage planning activity at this level and, in certain cases, some degree of 'onward' budget devolution by local government for activities of very local concern. For example, to the kebeles in Ethiopia, the VDCs and ADCs in Malawi, and the parish councils in Uganda.

2. Local Institutional and Accountability Challenges

The mapping exercise presented in the Annex to this guide will yield a range of problems and opportunities to be addressed by the institutional strategy of individual LDPs, which will vary greatly according to context. The various types of challenge addressed by LDPs to date are indicated below:

a. **Links between LGs and traditional authorities.** In many countries, especially in rural areas, customary authorities continue to play an important role in local governance even though their democratic legitimacy may be contested. They usually play a key role in land allocation and local dispute resolution, and in some countries (such as Malawi) they are actually accorded ex officio membership of local government councils. In such cases, LDP strategy will need to ensure that these authorities are appropriately co-opted, to encourage local acceptance and dissemination of the various LDP 'messages', and ensure the effectiveness of participatory planning or community resource mobilizing activities, etc.

b. **Links to other local non-state actors.** Where there is significant local NGO activity, attention should be focused on encouraging cooperative arrangements with local governments. Thus, a major theme in Mali, Senegal, Uganda, Cambodia and Bangladesh, where NGOs are very active in areas of local government interest, is the development of cooperative linkages. This is of less strategic relevance in Ethiopia, Lao PDR or Viet Nam, where there are fewer NGOs.

c. **Institutional links for co-provision.** Where two or more tiers are jointly involved in service provision, a major underlying theme will be the development of mechanisms facilitating communication and cooperation between the institutions at these different levels. Malian communes have responsibility for maintaining primary schools and health posts, while the regional education and health departments are responsible for staffing and equipping them. Clearly, effective provision of primary education and health services requires both support to and mechanisms for collaboration between these two levels (the co-provision issue is often neglected in the literature on subsidiarity). These linkages are less important in other countries where the bulk of provision responsibilities are concentrated at one level (such as Uganda or Tanzania).

d. **Organizational constraints.** Where local governments are large, a major focus may often be on improving internal relations and efficiency. Ugandan district councils are an extreme example of this. Unlike local government structures in most other LDCs, they are highly complex organizations with hundreds of staff, budgets of several million dollars, a wide range of responsibilities and many departments and committees. The internal organizational constraints and capacities to be addressed here are clearly far greater than those of a rural commune in Mali with one or two employees and modest functions and resources.

e. **Improved public expenditure management procedures.** Project strategies for innovation should take account of several factors:

- **Precedent.** Development of improved planning, budgeting and other procedures naturally needs to take due account of local capacities. Furthermore, the degree of latitude for such innovation varies significantly. Many countries with

Box 3: Practical challenges in determining institutional levels to support

Tanzania: When designing the Mwanza Region LDP in the early 1990s, there was pressure from some quarters to focus responsibility for planning at the regional level, on the grounds that district councils were "technically weak and corrupt". Since districts were the only elected level and had a legal mandate to provide basic services, this pressure was resisted, and the region assigned only a support and monitoring role in the LDP. This strategy was vindicated by subsequent policy development in Tanzania, whereby the role of the regions has been radically downgraded and the district councils empowered.

Ethiopia: The Woreda Development Fund operating in North Gondar Zone focused primarily on support to the woreda (district) as the main level of provision, and on the zone (Zonal Department of Economic Planning & Development) as the level of monitoring and oversight, neglecting the regional level. The role of the zones was subsequently downgraded by the regional authorities. With hindsight, it would have been more strategic to anchor oversight and policy development activities at the regional level, which is assuming a progressively dominant role as federalism takes root in Ethiopia.

Cambodia: The LDP was designed when the likely future roles of communes, districts and provinces were still unclear. It was decided to assign the main planning role to communes, and the role of coordination and support to provinces. This approach has been vindicated by subsequent policy development, which saw them become the two key sub-national levels, while the districts were assigned a simple technical backstopping role. Now that the role of the communes is being consolidated, however, policy questions are emerging as to the role and functioning of provinces and districts in a decentralized system of government.

long-established systems of local government (Tanzania, Bangladesh, Uganda) have well-established planning and budgeting systems and an accumulation of procedure and precedent, to which only incremental change may be realistic., There may be much greater scope for innovation in other countries with no such tradition (Cambodia, Ethiopia, Guinea).

- **Investment planning and recurrent budgeting linkages.** Where there are significant degrees of joint provision (as discussed above), there should be correspondingly greater care to ensure that, for example, investment planning and budgeting for new schools at commune level is linked to the recurrent budgeting process for staff and school equipment at the departmental level.

f. **Local resource mobilization.** The strategy for local resource mobilization will clearly be less significant in areas where local governments have few or very modest tax-raising powers than in areas where such powers are considerable.

There will generally be no scope at all where there are no corporate bodies, but only deconcentrated committees (districts in Mozambique), since the government cannot entrust tax-raising powers to such bodies.

g. **Accountability.** Projects require a range of institutional strategies and mechanisms to address the diverse concerns related to accountability. (See also Chapters 2 and 4).

- **Downward or political accountability.** A major and constant concern is the accountability of elected representatives to their constituents between elections. All else being equal, this is perhaps a greater concern in local governments with large, populous jurisdictions (districts in Uganda or Tanzania), where face-to-face contact between citizens and representatives is harder, than in small units (such as Cambodian communes or Senegalese communautés rurales). In the former, greater attention should be paid to mechanisms of internal devolution to elected bodies at lower levels (e.g. to sub-counties and parishes in Uganda, or ward and village committees in Tanzania).

  Another sort of problem may arise where elections are based on party list/proportional representation arrangements rather than territorial wards. In the former, the ties between constituent and representative are weakened, and elected councillors may be more attentive to party bureaucracy than to their constituents. This can increase the need for 'compensating' procedures for feedback and interaction.

- **Horizontal or managerial accountability**. The accountability of local civil servants to elected representatives may be more problematic in areas where the latter do not have any formal supervisory authority over them (as in Senegalese communautés rurales or Malian communes), than in areas where they do (Uganda or Tanzania). With no direct managerial control over civil servants, it is often difficult for elected representatives to secure their loyalty, and greater attention is needed to develop mechanisms to compensate for this, through service agreements or compacts, for example, or even through formal contracting of line department services by elected bodies or community groups.

- **Upward accountability.** Finally, the proper accountability of local authorities to central government is an area of concern that is often neglected. In many countries the challenge may be to encourage a shift away from excessively intrusive modes of central ex ante control of local budget priorities, which undermine the benefits of decentralization, towards more meaningful upward reporting, monitoring of legality and ex post budget controls.

3. Illustration: Two Contrasting Sets of institutional Challenges

While the institutional and policy context of each country is unique, LDP experience suggests that there are certain patterns to the institutional strategies and challenges that need to be addressed. We can broadly distinguish between two local government stereotypes that characterize many (though not all) of the countries where UNCDF operates:

- **The prefecture/commune model**. This model has two levels: elected (commune) councils with jurisdiction over a relatively small area, one or two employees and a narrow range of functions; and line departments deployed at a higher (departmental) level, where the pre-eminent political authority is the appointed Prefect (or Governor or District Commissioner) who supervises these departments, which are assigned the principal service provision functions and budgets. Many of the francophone and lusophone countries where UNCDF operates in Africa, Cambodia and, currently, Bangladesh follow this type of model.

- **The district model.** Here an elected council has jurisdiction over a relatively large and populous area, with full or partial supervision of the line departments also deployed at that same level, and responsibility for the principal service provision functions and budgets. Typically, this model also has a sub-district council. Most of the anglophone countries where UNCDF operates, particularly in eastern and southern Africa, follow this type of model.

Figure 2 offers a schematic illustration of the accountability flows arising under each of the two models (see also Chapters 2 and 4).

This schematic distinction can be used to very tentatively contrast some key LDP design strategies and challenges, recognizing that there are many implicit hypotheses that require testing (see Table 4).

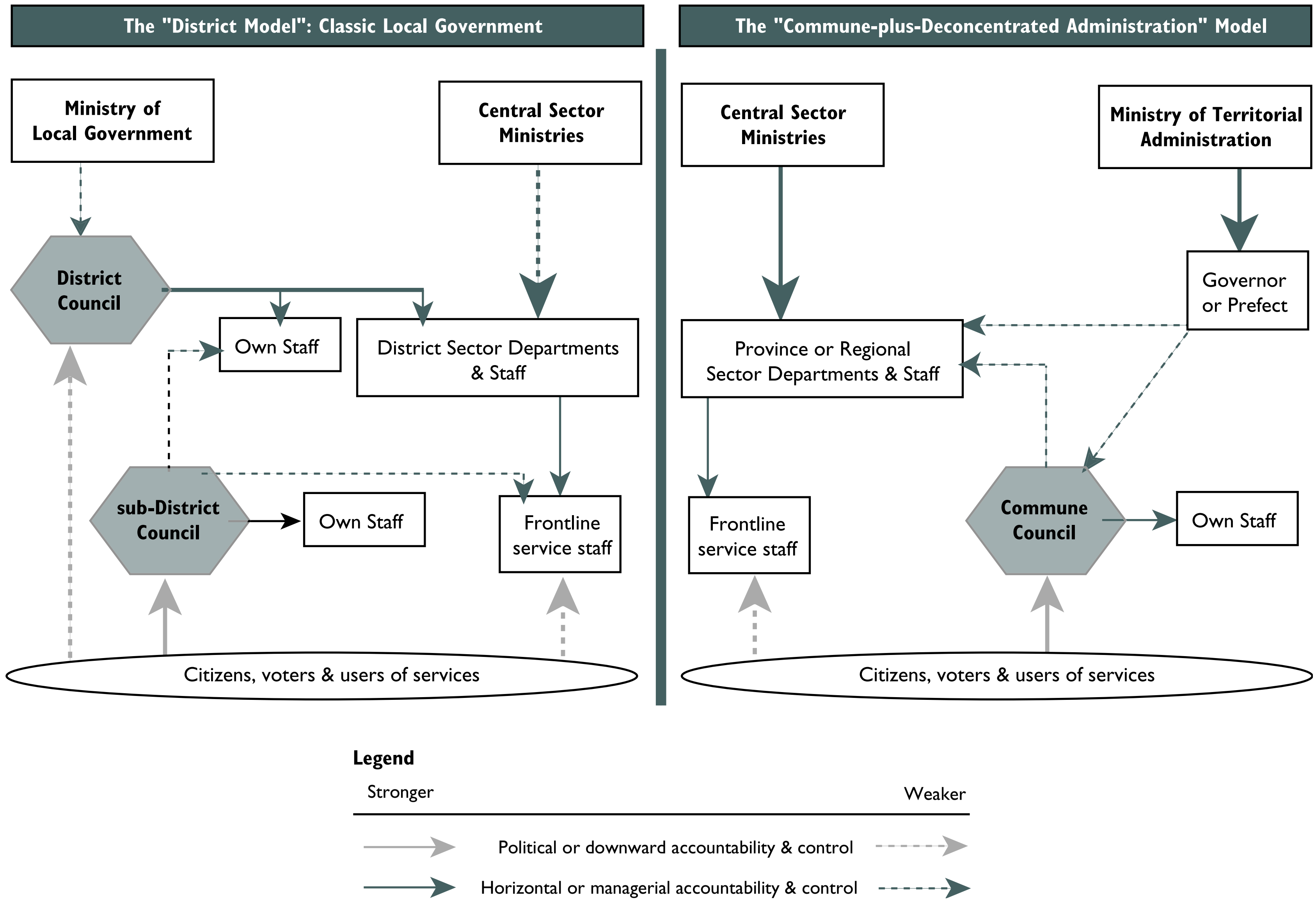
4. Local Institutional Innovations

The foregoing analysis indicates a widespread need for some form of local institutional innovation in order to strengthen local governance and local government and improve local infrastructure and service delivery.

Specific forms of institutional innovation will be addressed in Chapters 2, 3, 4 and 5. These innovations partly cover rules and procedures, and partly organizational structure.[1] With regard to the latter, innovations introduced within LDPs generally fall under the headings in Table 4:

- **Formalized community institutions below local governments** - to promote community involvement in local governance, integrate traditional authorities, facilitate interaction between local governments and communities and, overall, to promote downward accountability. These have been instituted in most LDPs.

Figure 2: Modes of Local Control & Accountability: Two Stereotypes



- **Local government committee structures within local governments** - to promote more effective policy-making, planning and monitoring in specific sectoral areas, promote more effective interaction between local governments with sector staff and other local agencies and, overall, to promote horizontal accountability. These have been instituted in many LDPs.
- **Coordinating and consultative structures above local governments** – to promote more effective monitoring and technical support to local government by sector departments, coordinate local government planning with sector planning, and promote horizontal and upward accountability. In the main, these have been instituted in LDPs in the context of communes and provinces.
- **Coordinating and consultative structures between local governments** - to promote cooperation between local governments on policy or planning issues of joint con-

Table 4: LDP strategies and challenges

LDP Challenges & Strategies	Province-Commune Model	District Model
Range of Infrastructure & Service Provision Responsibilities to be Decentralized	Narrower inter- and intra-sectoral range because of mandate, smaller planning area and weaker technical capacities; greater need to encourage and foster inter-LG cooperation for service provision	Broader inter- and intra-sectoral range because of mandate, larger planning area and greater technical capacities
Encouraging Accountability	Special attention to departmental civil servant accountability, and compacts/ contracts with communes or communities	Special attention to district council accountability, and empowering sub-district elected bodies
Introducing Improved Planning &Managment Systems	Possibly greater scope for major change; challenges to link planning and recurrent budgeting	Need to build more on existing systems; greater scope for integrating planning and recurrent budgeting, dependent on council/ line department relations
Introducing Fiscal Dentralization Mechanisms	Since the higher level line department is likely to retain major recurrent budget control, scope is limited to modest development budgets to communes	Scope for greater volume of development budgets and also recurrent budgets, dependent on council/line department relations
Local Revenue Mobilization	More modest scope due to narrower range of potential tax base	Greater scope due to wider range of potential tax base
Key Institutional Challenges	Compensating for technical weakness of communes; linking communes to higher-level line departments	Creating sub-district representative and planning bodies; tackling internal district council organizational and management issues

cern. In the main, these have been instituted in LDPs in the context of communes and provinces.

- **Provisional structures prior to the establishment of local government** – to simulate local government bodies before their formal establishment in order to generate lessons on appropriate form and role, and reassure policy makers that such bodies can be viable. These are being instituted in Malawi, Mozambique, Niger and Timor-Leste, countries that have been hesitant about establishing elected local government in rural areas.

5. National level

a. Anchoring and project execution partners

The need for LDPs to be policy relevant raises the issue of how they can be articulated with and anchored in national-level institutions. Unless such linkages are established, the lessons learned from LDP design and implementation may remain politically marginalized.

Generally speaking, LDPs logically tend to be 'housed' within a division or section of the Ministry of Local Government (in anglophone countries) or Ministry of Territorial Administration (in francophone countries). However, in countries where decentralization is embryonic or in its early stages, LDPs may need to be housed in rather different institutions, such as National Planning Committees, Public Administration Reform Programmes (often attached to the Prime Minister's Offices), or even Rural Development Ministries.

b. Other national partners

Such links are usually necessary, but not sufficient, to ensure policy impact. LDP strategy should also engage other key national agencies or bodies, such as:

- Ministries of Finance and Planning, and key sector ministries;
- Inter-ministerial committees or forums concerned with decentralization, service delivery, PRSPs, etc.;
- Local government associations (where they exist);
- Civil society, research and advocacy organizations concerned with issues of local governance, local service delivery and poverty reduction.

D. Geographic Area Selection Strategy

A wide range of options can be considered for LDPs in terms of geographical focus, although much depends on the available budget. Box 4 provides some examples of these variations in geographic focus.

Box 4: Variations in LDP geographic focus

Mali: (a) The Timbuktu Commune Support Project operates in the 7th administrative region of Mali, providing support to all 27 rural communes in three cercles (districts). The total population of these communes is about 250,000 people. Timbuktu was selected partly because it is one of the poorest regions in Mali, and partly because of the National Pact to address the legacy of civil strife in that area. (b) The Mopti Commune Support Programme operates in the 5th administrative region, supporting all 107 rural communes in the 8 cercles of the region (but excluding Mopti urban commune). The total population of these communes is about 1,400,000 people. Mopti is the poorest region in Mali.

Nepal: The Decentralized Financing and Development Programme (DFDP) currently provides financial and other support to 20 of' the 75 districts in Nepal, which are selected on the basis of joint poverty-related and basic capacity criteria. These 20 districts are geographically dispersed and have a total population of around 5,000,000 people.

Tanzania: The Local Development Programme operates in the Mwanza Region, one of 20 regions in the country. It provides financial and technical support to all six rural district councils, but not to Mwanza City Council. This region was chosen on the grounds of its relative poverty and development potential, and the absence of other major donor activities. The total rural population is around 2,400,000 people.

Eritrea: The Anseba Local Development Project provides support to all 10 rural sub-regions in Zoba Anseba, one of the six administrative zobas (regions) of Eritrea. It does not cover the Keren urban area. The total population of Anseba is around 570,000 people, roughly 500,000 of whom are rural.

Uganda: The District Development Project (DDP) piloted decentralized financing and planning in five of Uganda's 56 districts, initially excluding the town councils within these districts. These five districts were chosen on the basis of geographical representation, political stability and lack of other major donor activities, and were thus geographically dispersed. The total population of the five DDP districts is roughly 2.5 million persons.

Two sets of considerations should be kept in mind when defining the geographical focus of an LDP:

i. Aim for geographic-administrative coherence

In general, LDPs should try to provide support to as many LGUs as its budget allows within a given administrative area (e.g. all lower-level LGs within a district in Uganda or a region in Mali). This increases the policy significance of the LDP within the area and, because its geographical focus corresponds to the local administrative structure, is more likely to result in institutionalization. Experience has shown that more selective approaches tend to compromise institutionalization and policy impact (working only in the "poorest" kebeles in North Gondar Zone in Ethiopia, for example) .

ii. Recognize trade-offs

Two sorts of trade-offs should be considered when determining the geographic focus:

- **Spread vs backstopping.** There are clearly advantages to LDPs targeting a larger number of LGUs (as in Uganda and Nepal): complying with host government priorities, gaining a higher profile and greater credibility, and complementing ongoing UNDP programming activities. However, there are also clear trade-offs in terms of the quality of support, intensity of piloting and ability to monitor and evaluate meaningfully. These trade-offs need to be carefully examined;

- **Poverty impact vs policy impact.** LDPs frequently operate in remote rural areas, working on the assumption that these are the poorest parts of most countries. Whilst this may well be largely true and justifiable in terms of immediate poverty impact, there is a risk that the logistical difficulties associated with such areas, and their political marginalization, may detract from the policy impact and replication function of LDPs. Again, such trade-offs need to be carefully assessed.

E. Poverty Targeting Strategy

The overriding development objective of LDPs is poverty reduction. This is achieved either directly, through the financing of public goods and services in the immediate project area, or indirectly, through long-term policy impact and wider replication. The underlying hypotheses linking support to decentralized delivery of such goods and services to poverty reduction, which are the rationale for the LDP approach, are outlined in more detail elsewhere.[2]

Several kinds of poverty targeting strategy issue need to be addressed when designing an LDP in order to ensure effective poverty reduction impact.

1. Geographic Targeting: favouring poorer regions and rural areas

Insofar as the LDP is able to focus on poorer parts of the country, the choice of region or district (as discussed above) is itself an important factor in increasing the likelihood of poverty reduction.

The fact that LDPs generally focus on rural areas within these regions or districts further reinforces the likelihood of poverty impact, given the generally much greater incidence of both income and non-income poverty in rural areas within LDCs in Africa and Asia. There are several aspects to this:

- The higher poverty headcount in rural areas (where some 70%-85% of the poor typically reside in LDCs) increases the number of poor people that can potentially be reached;
- However – and this is a separate point – the generally much higher ratio of poor to non-poor in rural areas (typically two or three times the same ratio in urban areas) also means that, all things being equal, there is much less risk of mistargeting and leakage of benefits to the non-poor;

- Lastly, and balancing welfare considerations with economic growth potential, rural areas are also home to small farm and related non-farm enterprises, an economic sector that has been largely neglected in recent years, but which is recognized as offering perhaps the best prospects of pro-poor economic growth.

In other words, there are strong equity and efficiency grounds for a programme focus on rural areas. However, it is vital that this focus does not mean that linkages between rural areas and secondary urban centres are neglected: encouraging the two-way flow of goods, services and ideas between small towns and their rural hinterland will be an increasingly important element of LDP strategy.

2. Encouraging Specific pro-Poor Activities

A key factor in the LDP poverty reduction strategy lies in the nature of the specific infrastructure and services to be delivered through local government.

- **General focus on primary infrastructure and services.** As argued elsewhere,[3] there is a presumption that basic primary facilities such as primary health and education, drinking water, rural roads and tracks, etc., are of relatively greater importance to the poor than to the non-poor. Also, that they are also less prone to local elite capture than more 'private' economic investments. Therefore, a key element of the LDP poverty targeting strategy should be to focus on improving delivery of such infrastructure and services.
- **National poverty priorities.** National poverty reduction policy, or PRSP, may have determined that certain types of infrastructure or service delivery are especially important for poverty reduction. When designing the LDP specific thought should be given to favouring these sectors, while not unduly undermining local choice on priorities. In general, LDPs could perhaps do more to incorporate the priorities inherent in PRSPs, either through the LPP prioritizing tools themselves, or through performance-linked funding arrangements (see Box 5).
- **Risk of local neglect of poverty-related priorities.** In some cases it may be deemed necessary to develop a special funding component or window to address specific sorts of poverty reduction service or expenditure that it is believed will otherwise be neglected by LGs. A typical strategy response is to devise a special funding window, simulating the logic of a conditional or sector grant (see Box 6). The downside of this sort of strategy is that it may both complicate and undermine the integrity of the local planning process, 'distort demand' by encouraging proliferation of different priority-setting venues, and put extra strain on LGs by adding

Box 5: The Poverty Eradication Action Plan in Uganda

The national PEAP (itself the fruit of wide-ranging national consultation) highlighted primary education, water, health and roads as key to rural poverty reduction. The LDP thus included performance incentives in the block grant allocation mechanism to reward LGs that allocate adequate resources to these pro-poor sectors (see Chapter 2).

Box 6: Earmarking funds to ensure that the environment is not neglected

Sustainable development in Adi Arkay woreda, Ethiopia: In the highlands of Ethiopia poverty is closely tied to land degradation and extensive and undiversified agricultural systems that are ill-adapted to population increase. These problems are a serious threat to rural livelihoods. In order to address them directly a specific funding window was established (Kebele Agriculture & Environment Fund) to fund small agricultural investments and technical innovations proposed by communities, with the aim of improving land productivity and renewable natural resource management in one typical highland district (Adi Arkay woreda). This funding window serves to complement the Woreda Development Fund, whose focus is on basic social and economic infrastructure.

Support for local environmental governance in Mali: Poverty in the Mopti Region is similarly closely tied to the fragile environment. Communes whose inhabitants are especially vulnerable to recurring ecological crisis have access to grants from a Local Environmental Governance Support Fund, which can be used to finance natural resource investments. Again, this Fund complements the Local Government Investment Fund for basic infrastructure.

Box 7: Regressive local resource mobilization in Viet Nam

Under current fiscal policy, local governments in Viet Nam are encouraged to raise local resources quite indiscriminately, through a wide range of charges and levies and by mobilizing corvée (fatigue) labour for public works. There is a good deal of evidence indicating that a disproportionate part of this burden is borne by the poor, and that the processes employed lack transparency. Therefore, any future LDP should aim to raise awareness of this problem, and support local authorities in implementing more equitable arrangements.

to their accounting and reporting requirements. It also rests on the assumption that there are types of poverty-related investment expenditure whose importance is not locally recognized: an assumption that may not always be warranted, and which may sometimes reflect a patronizing bias towards 'technical experts'.

- **Perverse local priorities.** Conversely, there may be reason to believe that local governments are involved in other activities or services that are inimical to poverty reduction. It is important to consider how this can be limited or discouraged (see Box 7).

3. Poverty Targeting Strategies within LDP Areas

In general, the LDP local planning process (see Chapter 3) allows the public in general, and the poor in particular, to be involved in setting priorities for the planning and budgeting process. However, as there is no guarantee that this will deliver pro-poor outcomes, LDPs should usually include more specific provisions to ensure a pro-poor strategy.

Box 8: Addressing the needs of nomadic pastoralists in Timbuktu, northern Mali

Tuareg herders are often formally resident in one commune, where they pay taxes, but spend much of the year in a neighbouring commune. The LDP secured an inter-communal agreement whereby part of the annual block grant to the commune of residence could be used for investment in boreholes in the neighbouring commune.

Box 9: Geographic targeting in Eritrea

When designing the LDP in Anseba, the regional authorities wanted to pay special attention to the arid lowlands of Kerkebit sub-zoba, an area populated by nomadic herders, and were concerned that this should be done transparently. Given the lack of data on sub-zoba that might allow use of a more conventional poverty-weighted allocation formula, it was decided to embark on a consultative ranking process in which representatives classified all sub-zobas into categories of poorest, poor or least poor. The ranking generated by this qualitative assessment was accepted by all concerned, and Kerkebit received the highest allocation per head of population.

- **To address shifting residency between LG areas.** Where significant numbers of poor people are not always locally resident (such as nomadic herders in northern Mali or north eastern Uganda), special provision may be needed to ensure that their views and priorities are adequately addressed (see Box 8).
- **To address poverty differences between LG areas.** The poverty strategy may need to address any significant differences in poverty levels between different LG areas. This can be best achieved by appropriate weighting of the block grant formula to reflect the variations in fiscal need consequent to poverty differences (see Box 9 and Chapter 2).
- **To address inter-group poverty differences within the same LG area.** Remedial action is necessary in situations where the interests and views of certain sectors of the local population within individual LG areas are likely to be ignored or discounted within the LPP. Typically, women almost everywhere and certain caste or religious groups in South Asia and Africa tend to be excluded from local government and local 'community' decision-making forums.

  Where such problems pertain, there is clearly need for some form of affirmative action to redress the balance. Broadly speaking, there are two avenues that can enable LDP strategy to promote such action:

  - ***Institutional mechanisms:*** By devising arrangements whereby excluded groups can interact more confidently, express their views and priorities and have them channelled into broader local policy debate and decision processes. At one level, this may mean support to elected women or other minority group representatives; at another level, arrangements such as women-only planning

Box 10: Favouring women in Bangladesh

Institutional mechanisms: Local government legislation contains an affirmative action provision reserving seats for women elected onto local councils. To assist the activities of women's representatives, the LDP provides for support to local federations of elected women, so that they can meet, be trained and interact with other groups promoting gender issues in the area.

Planning and finance: Initial experiences with the LPP highlighted the difficulties faced by poor illiterate women in expressing themselves at local planning committee meetings, and getting their opinions and priorities taken seriously. To help address this problem it was agreed to set aside 30% of the Union Parishad block grant specifically for women's priorities. Proposals put forward at women-only meetings were subsequently appraised and ranked in plenary meetings attended by both women and men. This has already led to women becoming much more actively involved in the process, and it is hoped that in two or three years time women's priorities will be recognized as a matter of course, thereby removing the need to earmark part of the block grant.

Box 11: Gender audit of the District Development Project in Uganda

In 2001 this audit report concluded that the main obstacles inhibiting women's effective participation in local government development processes include:

- Male-dominated and insufficiently gender-sensitive planning, budgeting and resource allocation processes;
- General reluctance of communities to participate in meetings that are of no direct or immediate benefit to them;
- Inappropriate timing of meetings, which do not take account of women's schedule of activities;
- Cultural factors that discourage women from contributing to discussions, such as the low status accorded to women, particularly in rural areas;
- Weak and ineffective institutions representing women (Ministry of Gender, Women's Councils, Department of Community Services and women councillors), which find it difficult to ensure that women's concerns are incorporated into local planning and budgeting processes and resource allocation mechanisms;
- High rates of illiteracy among women (especially rural women). In 1990, nearly 60% of women in Uganda were illiterate.

These obstacles undermine pro-poor public expenditure that is intended to be of equal benefit to men and women. Gender concerns are not effectively incorporated into local council development plans and activities, and the weakness of institutions representing women means that they can do little to influence the allocation of public resources in favour of women.

groups, convened during the community-level consultation phase of the LPP. (see Chapters 3 and 4, as well as Boxes 10 and 11).

- ***Planning and finance systems and procedures.*** This may include ensuring that LPP tools for ranking proposals give extra weighting to proposals generated by or benefiting these groups (see Chapter 3); or introducing performance measures whereby LGs that favour these groups are rewarded in future block grant allocations (or the converse) (see Chapter 2).

As the example in Box 12 illustrates, however, there are often serious practical difficulties in implementing these types of strategy for affirmative action.

4. A final caveat regarding the Poverty Reduction Strategy

In closing this section, it is important to note that the LDP strategy should be explicit about the limitations to poverty reduction that can be expected through the LDP. Several factors need to be recognized:

- Government (local or central) may not always be the appropriate delivery mechanism for certain types of activity (such as micro-finance services) that can contribute significantly to poverty reduction
- Not all service delivery activities required for poverty reduction are best undertaken at the local level: for example, mass vaccination or public health campaigns are usually best undertaken by central government.
- In any country, the comparative advantages of local government in a possible range of pro-poor service and infrastructure delivery activities will depend on their size and capacities (see foregoing discussion on Institutional Focus).
- Finally, it must be remembered that certain key poverty-reduction services, notably primary education, primary health and agricultural extension, are essentially staff and recurrent-budget intensive. The LDP, however, is essentially a mechanism for promoting more effective delivery of development or investment expenditure, and can only indirectly influence recurrent expenditure or staff management.

Box 12: Affirmative action for dalits and women: Lessons from Nepal [4]

Under the LDP in Nepal, district development committees (DDC) had agreed to allocate a minimum of 20 percent for micro-projects providing special benefits for women and disadvantaged groups (DAG). The following lessons emerged from the first planning/implementation cycle, where guidelines were very limited:

- The majority of special projects benefited women, but very few projects benefiting DAGs were approved by the district councils.
- Despite the existence of an HMG/N definition of DAG, on the basis of local conditions, the districts considered other groups to be more disadvantaged.
- Most districts were able to comply with the MoU, and allocated 20 percent for projects characterized as women/DAG-focused. However, ex-post qualitative analysis found that these groups did not derive clear benefits from all such projects.
- The interpretation of projects benefiting women/DAG was sometimes changed by the DDCs to projects proposed by women's CBOs. Consequently, a number of projects benefiting the whole community but proposed and implemented by women were approved under this category. These projects were often regressive.
- A vast number of social development projects (e.g. health centres and schools) were considered as women-focused. There was no clarification of what type of project provided clear benefits to either DAGs or women.
- The majority of micro-projects are proposed by CBOs. The user groups responsible for project implementation and management are formed according to National Planning Commission guidelines. However, because CBO members were not always appropriately represented on these user groups, participation of the intended beneficiaries (including women/DAG for the 20 percent focused projects) was not ensured.

In order to deal with these shortcomings and improve targeting the following additional guidelines were introduced:

- The aggregate "20 percent benefiting women and DAGs" has been re-specified as 10 percent benefiting women and 10 percent benefiting DAGs.
- A list of disadvantaged groups should be prepared by DDCs, containing any justified additions of ethnic groups based on local conditions.
- The LDP has prepared a positive and negative list for focused projects, which will be discussed and agreed upon with the stakeholders (see Table below).

Focused project menu

Non-focused projects	Focused projects
- Road construction - Bridge/culvert construction - School construction or school improvements (except when in predominantly dalit communities or wards) - Market construction - River training - Electrification (except when in predominantly dalit communities or wards)	- Community building for women's CO or for a CO with predominantly dalit members - Drinking water supply improvements - Maternity ward construction or improvement - Irrigation scheme for a predominantly dalit community - Other economic infrastructure targeted at women or DAG - Construction of child care centre - Training events specifically targeted at women or dalits

- Measures will be implemented to ensure that intended beneficiaries of all projects, and women/DAG projects in particular, participate in decision-making processes and have decision-making powers regarding project implementation and management.
- All aspects of the affirmative action policy under the Programme will be made fully transparent as per the procedures generally agreed with the districts. Most crucially, a) the budget and 10 percent allocation for women and DAGs will respectively be communicated to VDCs and communities in the pre-planning workshops; b) details of all projects, including focused projects, will be published upon completion of the district development plan; c) lists will be published of DAGs and projects considered to be focused. According to the meaning agreed with the DDCs, "published" means that, at the very least, they are posted on DDC notice boards, forwarded in writing to VDCs and communicated to VDC secretaries during their monthly meetings.

The ex-post evaluation of district performance has been strengthened, and in future a share of the funding will be performance-based. One element of performance assessment will be the allocation to women/DAGs.

F. LDPs in Post-Conflict and Conflict Situations

1. Post-conflict situations

In addition to their implementation under more "normal" circumstances, LDPs have also been strategically and deliberately used in a range of post-conflict situations – notably in Mozambique, East Timor, northern Mali, and Cambodia. In such contexts, LDPs can usually be distinguished from other forms of donor-funded post-conflict interventions in that they:

- try to avoid the creation of entirely parallel institutions as mechanisms for the delivery of "quick impact" public goods and services. Such parallel institutions are not only likely to be unsustainable – they may also weaken fragile state and local administrations and delay or even impede the emergence of formal, public service delivery mechanisms at the local level;
- explicitly recognize the need to rebuild formal, state institutions (both local and national) whilst at the same time working towards making them as inclusive and accountable as possible. In that sense, LDPs – as compared to other interventions – more clearly recognize the politico-administrative dimension to post-conflict reconstruction;
- support the redefinition of more constructive centre-local relations, the inadequacy or inappropriateness of which may have been a principal contributor to conflict in the first place;
- take a longer term view of the process of reconstruction, seen not just as a question of rapidly rehabilitating decayed/destroyed infrastructure or injecting financial capital into local economies, but also as a process that delivers sustainable services and economic development through locally accountable institutions.

In post-conflict situations, LDPs have sought – as far as possible – to blend three fundamental policy goals, each of which may have a significant bearing on "peace-building" and reconstruction:

- **State building,** by strengthening state legitimacy, authority and political stability. This is concerned with:
  - enhancing the legitimacy of re-established or newly-established state institutions;
  - enhancing the authority of the state to supervise and regulate public affairs effectively and in the public interest;
  - reducing the potential for disruptive conflict between different centres of power, and thus enhancing the political stability of the country in question.
- **Local democratization,** by increasing the opportunities for citizen voice and empowerment, itself a source of legitimacy for the emerging state. This is concerned with:

  - the overall opening up of democratic space such that citizens can articulate their opinions, concerns and complaints and feed them into formal decision-making processes, whether directly or through their representatives (elected or otherwise), rather than pursuing extra-political redress or armed "solutions";
  - establishing arrangements that allow the opinions, concerns and complaints of all segments of society (men and women, rich and poor, ethnic or religious minorities or majorities, and so on) to be equally articulated, rather than muzzled or suppressed.

- **Local development,** through improving the delivery of and access to those basic public goods and services required for post-conflict reconstruction, poverty reduction and economic development. As with LDPs implemented under more "normal" circumstances, this is predicated upon:
  - the effectiveness (or "allocative efficiency") of local-level service delivery – i.e. the extent to which the allocation decisions of the planning & budgeting process reflect what is really wanted and needed by people (and especially by poor or politically marginalized people);
  - the "productive efficiency" of local-level service delivery – i.e. the extent to which planned and budgeted expenditures are efficiently and quickly implemented;
  - the quality and sustainability of local-level service delivery – i.e. the extent to which facilities are properly maintained, staff are present, roads are repaired, etc., to provide continuing services of the sort people need over time.

The extent to which each of these three goals has been addressed (simultaneously or sequentially) by LDPs in post-conflict situations has varied, depending very much on the precise circumstances, the nature of the original conflict and the characteristics of the emerging state.

Some examples illustrate the ways in which LDPs have been tailored to post-conflict circumstances and political realities:

Treading carefully: In some post-conflict countries, LDPs have needed to tread carefully, particularly with regard to the extent to which they foster the opening up of political space at the local level. In Mozambique, for example, the district planning process pioneered by the LDP has worked through "improvised" consultative bodies (for lack of any decision-making elected councils) – and has concentrated far more on improving the efficiency and inclusiveness of deconcentrated ISD. The same will also be true of post-conflict Afghanistan, where over-riding concerns about the need to assert national unity and re-assert central government control over scarce fiscal resources severely constrain the ability to promote any significant degree of devolution in the near future. In both cases, central government appears reluctant to allow LDPs to explore the "local democracy" policy issue – largely out of a fear of unleashing centripetal tendencies that might compromise the rebuilding of the core institutions of the state and a perception that those core institutions are currently too weak to deal with local government.

Full piloting: in other cases, LDPs have been able to take a much more positive approach in post-conflict situations. This appears to be the case where there is a local institutional vacuum, a kind of political tabla rasa, resulting from conflict. This has been the case in Cambodia, following the fall of the Khmer Rouge in 1992 and in East Timor, following the country's violent separation from Indonesia in 1999 (with full independence following in 2002). In both cases, LDPs have been used (or are being used) not only to assist in reconstruction and service delivery, but also as full-blown pilots for decentralization, carefully monitored by national authorities together with UNCDF. In the Cambodian case, the LDP piloting of Commune Development Committees eventually laid the foundations for the emergence of formal commune authorities; in the case of East Timor, where local assemblies have been established through Ministerial decree at sub-District and District levels in one District, it is still too early to predict what the policy impact (as opposed to service delivery outcomes) of the LDP will be. In both the Cambodian and Timorese cases, "on-the-ground" LDPs have been accompanied by substantial upstream policy support – building on and complementing the LDPs themselves.

Assisting decentralization as an official post-conflict strategy: In other cases, where national governments have deliberately introduced decentralization reforms as part of their overall strategy for dealing with post-conflict situations, LDPs have been able to play a useful supporting role. This appears to have been the case where central governments have felt relatively secure. In Uganda, a key plank of the state re-building strategy after the end of the prolonged conflict in 1986 was a programme of radical devolution of government functions to Districts and sub-Counties. The District Development Programme (DDP) was designed to help the government implement this programme, but with a very strong emphasis placed on better defining the infrastructure and service role of local governments, and on strengthening the systems and procedures for delivery. The same is true of Mali, where the LDP in the Timbuktu Region (the heartland of a serious armed rebellion in the 1990s) was designed to support the implementation of nationally-sanctioned decentralization reforms aimed precisely at reducing local/regional tensions.

2. Conflict situations

In Nepal, UNCDF also has experience of LDP implementation in an ongoing context of major conflict and political crisis. Since 1996, Maoist-inspired insurgents in Nepal have waged a "people's war" against the royal government – as of 2005, some three quarters of the country were occupied by the Maoists. The vast majority of VDCs had ceased to function by then, and local government officials in most areas of Nepal have been largely confined to district headquarters since 2002. In addition, the inability to hold elections in 2002 led to the dissolution of locally elected bodies at all LG levels – since then, central and local government civil servants have directly managed all DDCs and VDCs.

In the absence of elected representatives at the local level, and given the severe limitations imposed (by outright insecurity) on any genuinely participatory planning by

LGs, the primary justification for continuing the LDP in Nepal has been to sustain local government institutions – firstly, to deliver pro-poor goods and services and secondly, to keep them relatively "intact" until such time as a political solution to the conflict can be found.

To work in the context of conflict and political crisis, the Nepal LDP has had to adapt its modus operandi, by:

- placing greater emphasis on communications and information flows as a way of keeping ordinary citizens informed of funding levels, planning decisions, budgets and the like;
- extensively promoting local social audits of project implementation, thereby maximizing the extent to which rural populations can monitor asset creation;
- insisting upon affirmative action measures, such that women and disadvantaged groups (whose "voice", even under the best of circumstances, is circumscribed) have privileged access to investment funds;
- diversifying partnerships at the local level by encouraging DDCs to work actively with NGOs and CSOs that are still able to operate in many areas;
- trying to strengthen upward accountability (through performance-based funding) as a way of minimizing malpractice and fostering efficient LG management;
- introducing special measures for local staff, thus providing them with a degree of security in their encounters with Maoist insurgents;
- scaling back some of its policy ambitions, despite significant achievements in earlier phases of the programme.

How far such measures have been (or will continue to be) successful is, of course, difficult to judge. However, up until mid-2005, the LDP was still able to support DDC delivery of small-scale infrastructure to a surprisingly large number of people in remote, rural areas.


ITIZEN SDC-6780

Chapter 2: Financing Strategy

About this chapter

This Chapter provides a framework for thinking about local government funding, within the broader context of centre-local funding, and within this it situates the LDP as a strategy for piloting unconditional block grant transfers. It proceeds to detail the various factors which should determine both the absolute levels of funding; the mechanism for allocating funds to individual local governments; and the rationale for allocating funds to lower-level bodies in rural areas. It then introduces the notion of performance-based funding to local governments, a particularly promising LDP innovation, and the conditions for this. The Chapter then addresses strategy issues in regard to local resource mobilization and "matching" contributions, and the dangers often inherent in the conventional approaches, and finally covers management and control of funds; a postscript deals with some of the more specific issues faced in ("francophone") single treasury systems.

Questions addressed

What is the overall context for funding local infrastructure and services?

What is different about LDP funding, and how does it relate to fiscal decentralization policy?

How to determine the sizing and allocation of block grants?

How to effect funding and channelling to different levels?

How to build performance incentives into a block grant transfer mechanism?

What local co-funding to expect? How to support local resource mobilization?

Is there also scope to promote more conditional funding mechanisms?

A. Context and Clarifications

1. Local Public Goods and Merit Goods: A Conceptual Note

The underlying rationale for public financing of local infrastructure and services by and through local government is usually based on the argument that these are considered as public goods. Strictly speaking, 'public goods and 'private goods' are defined as such by virtue of two key features of their consumption and access, as shown in Box 13.

In actual fact, however, there are very few pure public goods. Rural roads and some preventive health care activities approximate to public goods, in that if they are provided to some they are automatically provided to all, and since exclusion of non-payers is highly impractical. But in economic terms, education, curative health services, drinking water and many other basic services are essentially private goods, since their consumption is rivalrous and their access excludable. In principle therefore, and very often in practice too, they can be privately provided, at least in wealthier areas.

The real rationale for public funding of private goods such as drinking water, education or curative health services is that, while they generate large positive socio-economic externalities of benefit to the community and the nation, they will not be adequately supplied to the poor (if supplied at all) by the market. Basic health, education, water, infrastructure and services are thus termed merit goods, meaning that they are private goods that society judges worthy of subsidizing with public funds.

That said, the following discussion will use the term 'public goods' in respect of common usage, although we will need to revisit this distinction when considering eligible menu items, especially investments under natural resource management or local economic development, which often directly favour relatively few members of the public.

2. Local Government Financing: an Overview

A key part of the LDP strategy is to trial innovative ways of funding local public goods and services through local governments. Chapter III, Section B outlines the typical mandated service responsibilities (and hence expenditure) of local governments, which essentially have four sources of funding for these activities:

Box 13: Private vs public goods: The economic distinction

Private goods (e.g. food or clothes) are goods whose consumption is rivalrous (if I eat or wear some, it cannot be eaten or worn by someone else) and excludable (if I do not pay for it I can be prevented from consuming it).

Pure public goods (e.g. national security) are non-rivalrous (my being protected does not diminish the protection of others) and non-excludable (even if I do not pay, I cannot be excluded from protection). No private operator has an incentive to provide public goods.

Box 14: Local government 'fiscal autonomy': a common misconception

There is a fairly widespread, but mistaken, belief, especially in countries creating local governments for the first time, that local governments both can and should be fiscally self-sufficient. The paradox of decentralization is that the degree to which service expenditure responsibilities are ideally decentralized is much greater than the degree to which fiscal revenues can be decentralized. Virtually all local governments worldwide require central transfers to bridge this fiscal gap. In principle, there is nothing fiscally 'unhealthy' about such transfers; the problem lies in the fact that the systems established to effect them are often perverse.

a. **Own revenue sources** (*la fiscalite locale*): local taxes, levies, service fees, etc. There is a body of theory and experience suggesting which kinds of tax are most appropriately assigned to LGs, based on their implications for market distortion and inter-jurisdictional equity. However, the revenues generated are typically low and stagnant, especially for LGs in rural areas of LDCs, and can never hope to cover more than a fraction of the mandated service delivery costs. The resultant 'vertical gap' needs to be covered from other sources;

b. **Shared revenues**. These are tax revenues that are shared between central government and LGs, either on the basis of origin or derivation, or through pooling and re-distribution between local governments on a formula basis (in which case they assimilate to grant transfers – see d. below), sometimes for a specific purpose, like sharing fuel tax for local road maintenance.

It should be noted that formerly socialist 'transition' countries are usually characterized by very complex – and often quite perverse – 'revenue-sharing' arrangements between levels of government, whose reform can be a major policy challenge;

c. **Loans**. Experience suggests that while large urban authorities may be viable borrowers, the same cannot be said of poor rural authorities with little revenue capacity, which tend to simply sink into debt or have to default on their loans. The same reservations apply with even more force to bond financing and similar capital market mechanisms.

d. The main sources of funds to complement own-revenue sources are transfers from central government (or development partners), or inter-governmental fiscal transfers. These are addressed in more detail in the next section below.

3. Centre-Local Funding and Inter-Governmental Fiscal Transfers (IGFT)

i. The broader context of centre-local funding

Before reviewing the main features of IGFT mechanisms it is worth considering the broader context of fund flows from the centre to local areas, as shown in Table 5.

To begin with, there is the distinction between fund flows that go through local government and those that do not. It should be noted that in many countries the bulk of centre-local funding, including a large part of donor funding, bypasses LG altogether. This includes funding through sector ministries to their deconcentrated branches, funding through social funds, NGOs, etc. These fund flows are shown in the column on the right of Table 5. Funds that do flow through local government fall into various categories of inter-governmental fiscal transfer.

ii. Inter-governmental fiscal transfers (IGFT)

IGFT is a broad term that covers:

a. Various sorts of revenue-sharing arrangement;.

b. The grant mechanisms used for annual transfers from general central government budgetary resources (decreed, negotiated, or as a specified percentage of these resources) to local governments, for recurrent and development expenditure. These annual grants may be:

   - **Conditional, sector- or purpose-specific grants.** These transfers are earmarked for specific types of local expenditure. Earmarking may be very specific, with little or no local discretion (e.g. for teachers' salaries), or more generic, allowing greater local discretion (for primary education, for example). The degree to which local government acts as an agency or plays a principal role depends on how closely such grants are earmarked;

   - **Discretionary or unconditional block grants.** Use of these transfers may be determined by local governments, provided that it is consistent with their mandated functions. Here local government plays a principal role, enjoying discretionary choice to allocate these funds across the range of sectors and activities they are mandated to deliver.

These grants are also usually used for fiscal equalization, with the amount transferred calibrated to address the uneven balance between the fiscal resources and responsibilities of different local governments (see below for further details).

Both conditional and unconditional grants can be further sub-categorized according to whether they are lump sum or matching grants, and fiscal effort-related or not.

4. LDPs as Pilots for Block Grant Funding Mechanisms

Within this context, one of the major strategic aims of the LDP is to set up and pilot mechanisms for funding local governments that reflect international good practice.

LDPs generally aim to pilot a specific funding instrument: the unconditional or discretionary block grant. However, as suggested above, it should be clear that such discretionary block grants (for development budget spending) constitute only one element

Table 5: Financing local development: the place of unconditional block grants

Features	Centre-local funding modes				
	Funding to local government				Funding bypassing LG
Type of fund flow	IGFT flows			Project-specific	Various
	Revenue-sharing	Unconditional block grant	Conditional or sector-specific grant	Funds for specific, discrete projects	Funding to deconcentrated agencies, CBOs, NGOs, etc.
Types of expenditure to be funded	Various	Administration Budget: general administration expenditures of local government Development Budget: development expenditures within agreed range of sectors	Administration Budget: teachers, health workers, etc., and related operating costs Development Budget: sector-specific development expenditures, which may or may not be defined	Pre-defined project-specific investment expenditures	Various
LG discretionary role in allocation decisions	Depends on sector-use limitations: at the least, scope for intra-sectoral discretion	Maximum: scope for inter- and intra-sectoral discretion	Limited: at best scope for some intra-sectoral discretion	Only where LGs themselves apply; otherwise none, other than in implementation arrangements	None, other than consultative or monitoring at best
LG role: principal/ agent	More principal than agent	Principal	Usually more agent than principal	Agent	None
Typical donor support	Road/fuel tax funds	Local Development Fund	SWAPs; 'Green windows'	MDPs; some social funds	Most social funds, NGO support

Box 15: Seven principles for designing a sound centre-local fiscal transfer system

1. The transfer system should provide a source of adequate resources to local governments in a way that balances national priorities and local autonomy.
2. The transfer system should support a fair allocation of resources by providing more resources to districts with lower tax capacity and greater fiscal needs.
3. Transfers should be provided in a predictable manner over time. The funding rule for the transfer programme and the allocation formula should both remain stable over a period of several years to promote revenue predictability and overall budget certainty.
4. Allocation formulas should be as simple and transparent as possible. The formula should be understandable to all stakeholders, particularly regional officials and legislators, and no part of it should be subject to political manipulation or negotiation.
5. The transfer allocation formula should not create negative incentives for local government revenue mobilization, neither should the formula induce inefficient expenditure choices. For example, negative incentives to revenue mobilization are created if the amount of the transfer is reduced every time the local government makes a greater effort to increase its own revenues. Negative inducements to expenditure choices are present if the amount transferred is a function of the number of school buildings and clinics, so that the local government would receive a larger transfer by producing excess physical capacity in the form of half-empty hospitals or unused school buildings.
6. Unless there is good reason to do otherwise, intergovernmental fiscal transfers meant for general-purpose financing of sub-national governments should generally come with a minimal number of conditions . Conditional transfers commonly create a variety of administrative problems, lead to micro-management of local government affairs by higher-level governments, and reduce the freedom of local governments to set their own priorities.
7. During the introduction of the new transfer mechanism, the transfer system should avoid sudden large changes in funding for local governments. Major changes may result in inefficient resource allocation and are likely to reduce the political acceptability of proposed reforms. As a result, it might be desirable to hold local government 'harmless' during a phasing-in period for reductions in allocations to local governments.

Source: Boex, Jamie, 'An Introductory Overview of Inter-Governmental Fiscal Relations – a Training Module', Georgia State University, 2001.

in any developed IGFT system, and will almost always coexist alongside other, more conditional or sector-specific grant mechanisms, as well as other centre-local funding arrangements. Indeed, in many systems the latter will account for the bulk of funds transferred. That said, there are two reasons for the LDP strategic focus on discretionary block grants:

a. **Core role of block grants.** The rationale behind the decentralization of basic service functions to local governments (greater knowledge of local needs, diverse and specific local priorities, etc.) requires some local flexibility in resource allocation if these advantages are to be leveraged. Therefore, the block grant IGFT mode should be a key element of any local government funding;

b. **Typical neglect or perverse design.** In very many LDCs – and other countries – prevailing IGFT mechanisms for discretionary block grants are usually characterized by insufficient volume of resource flows, perverse design and failure to reflect international good practice.

Table 6 situates the LDF mechanism within a dual classification of centre-local fund transfers.

- According to the degree of local policy discretion allowed in the use of funds: unconditional or conditional – specific purpose – local use (although, in reality, there is often more of a continuum between the two extremes);
- According to the type of expenditure allowed: routine administrative expenses, or expenses associated with a development activity or investment (and which are not necessarily purely capital expenditures).

Table 6: Locating the LDF within a broader IGFT system

Type of expenditure	Centre-local grants for:	
	Unconditional use at local level	Conditional or sector-specific use at local level
Administrative or routine expenditure	Government funding for local government general administration expenditure	Government funding for teachers, health workers, etc. and related operating costs (e.g. SWAPs)
Development or investment expenditure	LDF Donor/government funding for local discretionary use within agreed range of development expenditures	Donor/government funding for sector-specific development expenditures (eg SWAPs) some LDPs

Postscript: LDP conditional grant funding experiments

While the prime focus of LDPs is the piloting of unconditional block grants, in some cases UNCDF has also established more conditional grant-type funding windows, for:

- Road rehabilitation and repair investments (Tanzania and Zambia);
- Agriculture and natural resource management investments (Senegal, Mali and Ethiopia). (See Section II. E below).

5. Contrasts With Other Local Funding Approaches

It is important to understand how the Local Development Fund approach differs from other sorts of funding mechanisms established to fund the same types of local public goods. Contrasts, which are summarized in Table 7, can be seen in relation to:

- **Ownership of funds:** LDF resources are 'owned' by local governments, which make the allocation decisions (this is not generally the case with other approaches);
- **Procedures for planning the use of funds:** LDPs aim to use the funding mechanism as an incentive to promote a more comprehensive, routine and participatory local planning process, which is integrated with local government budgeting procedures for all local fund sources. (Other approaches typically focus on one-off planning solely for use of the specific funds provided);
- **The nature of the budget constraint:** LDPs promote the discipline of the hard budget constraint by allocating a fixed, known amount. (Apart from a few SIF programmes, this is not generally the case with other donor programmes, whose implicit soft budget constraints discourage sound prioritization, efficiency and local resource mobilization);
- **Integration with the local budget cycle and process:** LDPs aim to integrate funding and budgeting of fund use within local government budget cycles and procedures, to ensure ownership and sustainability. (This is not generally the case with the other donor programmes).

B. Allocating Funds to Local Governments

1. Overall Funding Intensity or Fund Pool

When allocating funds to local governments the first question to consider is the absolute level of funds to be allocated to the block grant mechanism. This should be examined in conjunction with the size of the population in the proposed LDP area, because of the implications of the average per capita allocation. (Actual allocation of funds within the overall LDP area is addressed further below). Several considerations come into play in this exercise:

Table 7: Contrasting donor approaches to funding local public goods

Project or programme approach	'Owner' of the fund, making final allocation decisions	Planning for use of funds	Nature of budget constraint	Integration of fund allocations to LG budget cycle
Social investment fund	National Social Fund agency or board, based on proposals from CSOs, NGOs	Ad hoc, focused solely on applications for SIF resources	Usually soft (although some SIFs are now introducing indicative allocations to LGs)	No
Sector programme - SWAP	Usually sector ministry	Ad hoc, focused on intra-sectoral priorities	Usually soft	No
NGO or community development/ empowerment projects	NGO, project team or community group	Ad hoc, focused solely on applications for NGO resources	Usually soft	No
LDP	Local government, based on proposals from community bodies	Aims to promote inter-sectoral area planning, and to integrate planning with LG budgeting, for all LG fund sources	Hard	Yes

i. Sustainability of funds flow

The overall annual flow of funds should be at a level that can be sustained in the longer term through routine IGFT, funded by government with donor support. This will be derived from analysis of:

- Current levels of government expenditure on services that could, sooner or later, be devolved to the local government levels concerned (basic health, education, roads, agriculture, rural development, etc.);
- Levels of likely donor support (which typically comprise 80%-90% of development budget expenditure in most LDCs) for the same activities that may be encouraged to flow to the same levels in a devolved manner.

ii. Local absorptive capacity

The flow of funds should not swamp absorptive capacities relating to demand or supply. These include:

- Local government capacities to plan, budget and administer;
- Local private and sector department capacities to deliver goods and services;
- Local government and community capacities to manage and maintain assets.

All these considerations argue for relatively modest flows. UNCDF experience suggests that average flows of approximately $ 1.5 to $ 3 per capita of population resident in the LDP area per year are appropriate, at least in the early stages. It should be noted that this represents a very modest fraction of development budget per capita ratios, which typically range from $ 20 - $ 50 per capita per year in LDCs, and is also a small proportion of typical government budget revenues per capita.

iii. A performance reserve

The strategy now adopted in almost all LDPs is to introduce performance-related bonus allocations for better performing LGs (see Section II. D. below). This requires some part of the notional 'pool' to be set aside as a reserve for such allocations, usually 20-30 percent.

In the Mali and Niger LDPs part of this reserve has been set aside for proposals sponsored by two or more lower-level local governments, in order to encourage greater collaboration and ensure that investments whose benefits transcend the boundaries of individual local authorities, such as investment in public infrastructure or environmental restoration or improvement, are not neglected.

Box 16: 'Sustainably modest' funding: lessons on two different trade-offs

Poverty impact and sustainability: 'Sustainably modest' levels of fund flow appear to be far below what is needed to make a rapid impact on poverty-related problems in the areas targeted, and well below the levels typically channelled through more conventional rural development programmes. There is then a trade-off, although this may be more apparent than real, given how little such traditional high-delivery programmes typically left behind that was of lasting poverty-reducing value.

Under-funding may undermine sustainability: Over-modest funding levels may also cause problems. Experience of projects with very low levels of funding (below $ 0.5/ person/year, in Ethiopia, Tanzania and Nepal) suggests that:

- Concern not to fragment such modest funds encouraged an understandable allocation focus among teams and district authorities, and targeting of a few select poor villages or wards within the wider districts. This tended to maintain the 'project flavour' of funding and planning procedures, and to isolate them from mainstream district activities.
- The very limited funds also put greater pressure on communities to provide counterpart resources, often with regressive effect.

iv. The corollary: funds determine project area and size

An important reverse design issue often comes into play: the fact that project design is usually undertaken with a notional level of the project funding available, which will in itself determine the approximate population and area that the LDP can support.

In this, a balance should be struck between the developmental pressures to make a substantial local impact, which may lead to overly intense funding, and the political pressures to include too many local government areas that can result in funds being spread too thinly.

2. Allocation Between Local Government Units

i. The general question

Once the overall pool has been determined and the local government units (LGUs) selected, the next step is to decide how this pool is to be allocated between them. In what follows we discuss the basic allocation required to address fiscal differences between LG units, in other words, how to address the equity dimension.[1] This is often known as the Horizontal Allocation issue.

This question arises because of the differences between local governments: since their resources and expenditure responsibilities vary, often greatly, equal allocations are not fair allocations. It is also a policy question, for which there is now a body of worldwide lessons and principles. Building on the principles outlined earlier, there is now general agreement that:

a. Funds should be allocated on the basis of a pre-established and agreed formula, so that the sums assigned are not seen as the result of discretion, favour or whim on the part of central government (or UNCDF/UNDP or the project team). This is an important element in creating transparency and trust;

b. The formula variables should be few and simple, and should require unambiguous, reliable and non-controversial data for computation;

c. Specifically, the two main types of variable in the formula should be:

   - The (relative) populations of the LGUs, to ensure a bias towards per capita equality in allocation. This should receive a weighting of over 50%;

   - One or more measures of fiscal need to ensure some adjustment from equality of treatment (equal allocations per capita) to fairness of treatment, given the differences in poverty-related expenditure requirements between LGUs (including possible major variations in provision costs, due to remoteness, for example);

d. It may also be justified to include a fixed sum in the formula, recognizing that there may be some minimum threshold of development (or development administration) expenditures to be incurred whatever the size of the population (e.g. all districts may need to employ a planner, or run a district hospital or farmer extension centre). This factor will of course also dampen absolute differences between LGU allocations, while enhancing inter-LGU per capita inequalities in favour of less populated LGUs. For this reason, the fixed sum should be modest - say up to 10% of the annual pool, distributed equally. At the very limit, and aside from equity considerations, if this fixed element is too large it may constitute an incentive for local politicians to split up LGUs.

ii. Some lessons on devising a formula

a. First, a cautionary lesson. Perhaps because it is seen as an interesting 'technical' question, a great deal of attention has been focused on how to devise a formula. However, its importance in the overall IGFT schema can easily be overemphasized; clearly, establishing the absolute pool size is far more important in determining what resources an individual LG will receive;

b. One of the aims – explicit or implicit – of an unconditional block grant mechanism is to compensate for differences in the fiscal needs of different LGs. In order to serve its purpose of fiscal equalization, the formula should theoretically contain measures of both local fiscal capacity and local fiscal expenditure needs.

   This has been possible in some LDPs, but data on the fiscal revenue base of rural LGs are often unreliable, out of date or incomplete in many countries, and estimates of expenditure needs are equally problematic. Therefore, it is usually necessary to seek proxy measures;

c. Poverty measures are often used as proxy measures of both local fiscal capacity and local fiscal expenditure needs: i.e. greater poverty is likely to reflect both lower scope for fiscal revenues (taxation of incomes, property and transactions), and

Box 17: Block grant allocation formula

Block grant to LG Unit H = $F + [(\text{Pool} - N.F).[a(P^H/P^X) + b(E^H/E^X) + c(F^H/F^X) + d(G^H/G^X)]$
where:

H is the name of the Higher Level LG Unit

Pool is the total funds to be allocated in that year

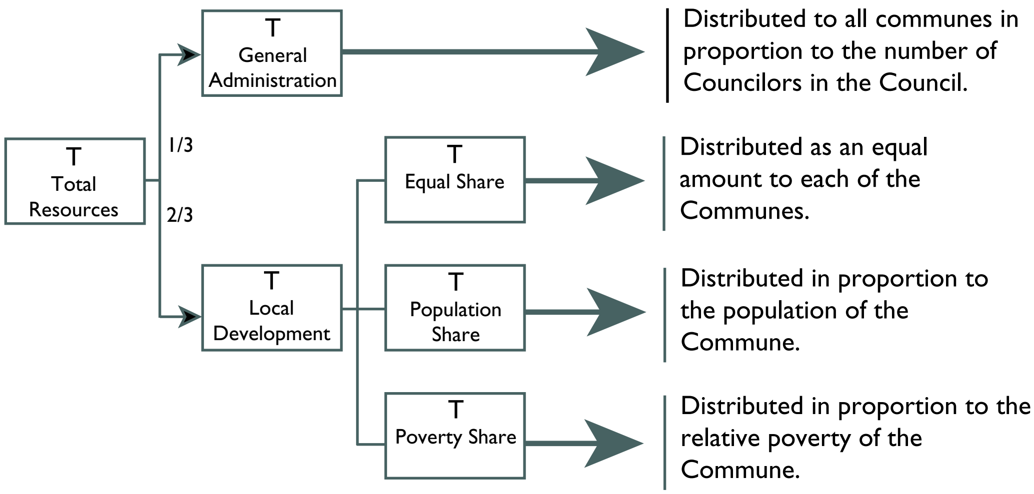
F is the optional small fixed amount to be allocated to all N Higher Level LG Units in the programme

P^H is the population of LG Unit H; P^X is the population of all N LG Units in the programme

E^H is the value of the first index for either relative fiscal need or poverty in LG Unit X; E^X is the value of the same index for all N LG Units in the programme.

a = 0.5 or more, and where a + b + c + d = 1.0

Figure 3: Cambodia: Commune Sangkhat Fund Allocation Formula



Box 18: Examples of LDP formulas and issues arising

Some LDPs have modelled the formula on what is already prescribed in national policy:

Uganda: specified in LG Act as [population.20%].[child mortality.40%].[school age popn.25%].[land area.15%] but due to data problems and controversy simplified to [population.85%].[land area.15%]

Bangladesh: government regulation specifies [population.40%].[land area.30%].[“backwardness”.30%], but government “backwardness” data are proving problematic and revisions are under discussion.

Where there is no policy-based formula LDPs have had to innovate from scratch:

Nepal: initially fixed amounts per DDC, clearly inequitable on a per capita basis. Now moving to a formula structured as follows: 20%[population], 50%[HDI , 20%[cost index], 10%[area]. In practice, the low weighting to population still tends to result in virtually equal allocations to districts.

Malawi: initially [fixed sum=30% of pool] + 70%pool.[pop.25%].[land area.25%].[illiteracy rate.25%].[infant mort.25%] but this then simplified to [pop.100%]. To be reviewed.

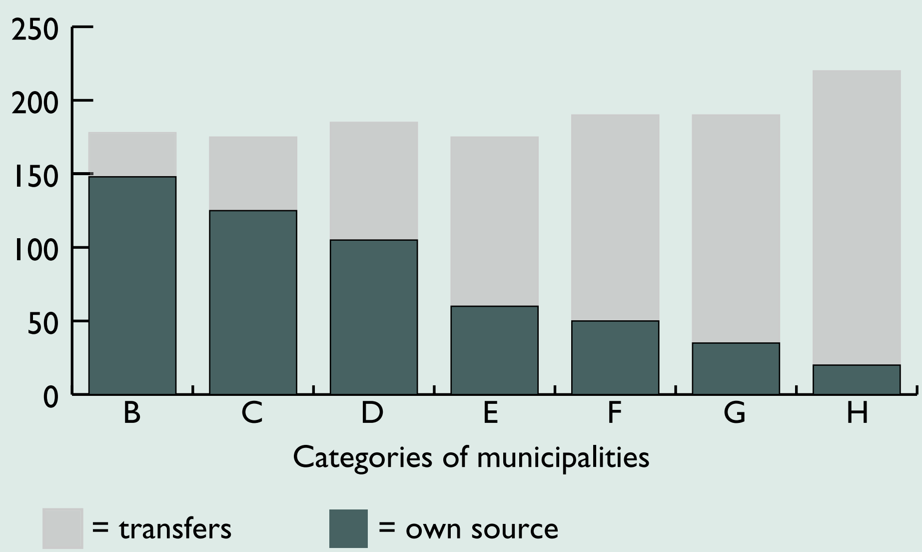
also greater need for local public expenditures. However, caution needs to be exercised in determining the appropriate 'poverty-related fiscal need' variable(s).

- Pressures to include a set of overly comprehensive poverty measures should be resisted, since data are usually unreliable, not LGU-disaggregated and frequently not updated. In any case, the resultant computation may not be transparent or easily understood;
- UNDP-sponsored HDI indicators are often developed for sub-national units such as regions, and appear to be an obvious measure of poverty/fiscal need. However, there are technical problems with these indicators. First, they are not always disaggregated to LGU levels. Second, they are based on a questionable and – to many – obscure scalar summation of three poverty variables (income, life expectancy and literacy). Third, the data for at least one of these – average household income – are notoriously unreliable in many countries, especially in rural areas. Fourth, reliability aside, the latter does not capture variation in household income around the mean, and so ignores relative inter-personal income distribution issues.

Box 19: Fiscal Equalization Through Transfers in Nicaragua

Since 2000, with UNCDF and World Bank support, an attempt has been made in Nicaragua to measure the fiscal income potential of municipalities (using as a proxy the potential yield of real estate taxes), and to apply the bulk of fiscal transfers to fill the gap between such potential and an equalization standard (a function of the income variation at baseline and of the total pool of resources available for transfers). As shown by the diagram (2002 data), transfers have then effectively contributed to fiscal equalization among municipalities, achieving the main objective of transfers set out in the country's Constitution (Art. 127).

Municipalities grouped by fiscal category



- Variables such as land area or remoteness are also often suggested as proxies for fiscal need. However, these can be problematic (does land area include water bodies? How to measure the surface of mountainous areas? Remoteness from the national capital, or from major road networks?), and the aim of their inclusion is often not clear. Where the concern is to reflect the relative costs of delivering services, more direct measures may be simpler and more effective (e.g. sample costs of building standard facilities in different LGUs);

d. Sometimes, there are more fundamental challenges to achieving the fiscal equalization goal through the block grant system:

- The absolute size of unconditional development grant allocations may simply be too modest to compensate for major differences in local fiscal potential;

- In some cases (e.g. Viet Nam and Laos) inter-LG fiscal disparity largely arises from inappropriate assignment to LGs of revenue sources that would normally accrue to central government (such as import duties with high yield but very unequally distributed fiscal base), suggesting that fiscal equalization policy should often also include reform of tax assignments;

- On the other hand, the separate issue of encouraging local fiscal effort (i.e. LG tax collection efficiencies, which can also vary considerably) may be addressed through both performance-related funding and matching arrangements (see further below). However, there are questions about the effectiveness of these measures;

e. In general, it needs to be remembered that grant allocation is only one of many policy instruments (and a blunt one at that), which cannot therefore be expected adequately to address multiple policy objectives. Indeed, a classic economic policy maxim suggests that each policy instrument can adequately address only one policy objective.

In conclusion, there is no ideal formula: what emerges will be a compromise between views on the best way of measuring relative poverty or fiscal need and what data are available. But data can be generated as monitoring systems are developed, and the formula can be refined over time. What is important is that the 'basic policy structure' of the formula is agreed at the outset, to allow for such incremental refinement at a later stage.

3. Cycle and Timing of Allocations

Two important timing questions should be addressed next: periodicity of allocations and the calendar timing of their announcement and release.

i. Periodicity of allocations

A first question is whether the block grant allocations should be annual or multi-annual (2- or 3-year allocations).

The arguments for multi-annual allocations are as follows:

a. they provide the local government with a longer time horizon for planning and implementation, by virtue of the more extended and reliable funding commitment;

b. they also provide more significant resources, and by raising the threshold may allow larger, higher-impact investments that may otherwise not emerge from more 'fragmented' annual funding arrangements.

The arguments for annual allocations are that:

a. they allow for a 'shorter leash' in the tying of fund allocations to performance monitoring (see sub-section below), which is otherwise weakened when multi-annual funding commitments are made to local authorities;

b. in light of the central government's own budgeting and financial management procedures it may be much more feasible to institutionalize annual commitments for centre-local transfers;

c. on a more practical note, it is often hard for an LDP to support extended multi-annual funding commitments, given the phasing of LG support within the time limits of a 5- year project cycle (an LG in the 5th year batch cannot easily be given a 3-year funding allocation).

Again, this is a design issue requiring context-specific discussion and weighing of these arguments.

ii. Timing of block grant announcement

Another salient question relates to the date when local governments are informed of their (annual or multi-annual) block grant allocation. Although this may appear to be a minor detail, LDP experience suggests that it is a critical one.

It is important that the announcement of forthcoming block grants is made to local government planning bodies in due time **before the final selection** of all investment expenditure proposals, so that LGs can make these decisions with full knowledge of all the resource levels available. If the announcement is delayed until after this step, the intrinsic value of the hard budget constraint in promoting efficient prioritization decisions (and discouraging the shopping list approach) is lost. Section B reviews typical LDP planning and budgeting cycles and the calendar steps in the process.

Box 20: Periodicity of block grant allocations: a tentative conclusion

- Multi-annual block grants are allocated to communes in Mali and, in an earlier LDP phase, in Viet Nam and Cambodia
- Annual block grants are allocated to districts in Uganda, Tanzania, Malawi

These examples suggest a tentative conclusion: that multi-annual allocations may be more appropriate in countries where local governments are small and have limited expenditure responsibilities, where transfers therefore account for a very small fraction of the national budget, allowing looser controls; while annual allocations are more appropriate when the size and spending scope of local government is greater, and a more significant level of block grant transfers is needed from the centre, demanding closer control.

C. Allocating Funds to Lower-Level Bodies

Many countries also have a lower tier of local government and/or formal community institutions, such as village development committees, raising the issue of what strategy should be used to allocate funds from the higher tier to these lower tiers. Such questions also tie in closely with the nature of the LPP and the extent to which some degree of planning authority has been devolved to these lower levels.

1. Block Grants or IPFs to Lower Levels

One of the first questions is whether or not higher levels of local government should transfer downward some part of their own block grant allocation, as block grants to lower levels for their discretionary use for agreed types of expenditure.

i. Whether to transfer block grants down to lower levels

It is important to distinguish between two different types of lower-level institution: corporate local government bodies and administrative/consultative committees.

Lower-level corporate local government bodies.[2] When the lower levels are themselves corporate local government bodies with their own legally mandated planning and service delivery responsibilities, there are overriding arguments in favour of such onward transfers, since these lower-level local governments also require regular and reliable access to funds to meet their own statutory obligations and close their own fiscal 'vertical gaps', and because the block grant – with its implicit hard budget constraint – is the most efficient means of doing this (see Box 21).

Lower-level administrative/consultative committees. In most countries there are also lower-level institutions that approximate more to formalized community institutions. These are not bodies corporate, but are administrative or consultative committees with less clearly defined legal status, more *ad hoc* representative arrangements and imprecise mandates (such as Malawian area development committees, Ugandan parish or village councils, Tanzanian village development committees, Malian *fractions* [hamlets] or Nepalese ward committees). These bodies do not usually have legally mandated

Box 21: Block grant transfers to lower-level corporate local governments

Ugandan sub-counties, Ethiopian kebeles and Tanzanian village development committees are all statutorily empowered corporate bodies with legal personality, powers, more or less defined service delivery mandates and hence expenditure responsibilities.

Therefore, LDPs in Uganda, Ethiopia and Tanzania provide block grants to these lower levels. However, it should be noted that due to overly modest funding levels in Ethiopia and Tanzania, this strategy has entailed an undesirable degree of fragmentation of very limited resources.

service responsibilities, but a more open consultative function. They are often derived from traditional customary organizations or from bodies established by central political authorities to better 'control' rural areas. Here the decision to transfer block grants onwards is more complex.

The main arguments in favour of such transfers are to encourage:

a. more active public participation in these institutions, by providing the certainty of resource 'entitlements';

b. more serious prioritizing, planning and commitment by these institutions, through the implicit hard budget constraint of the grant.

However, there are also arguments against such downward transfers to these bodies:

a. They fragment the already limited funds available to the higher-level body, undermining its role and legitimacy, as well as the scope for integrated planning and budgeting and overall institutional development;

b. They introduce a bias towards very small local investment proposals and away from the more strategic kinds of investments more likely to be forthcoming at the higher level, thus compromising overall impact;

c. Furthermore, in some countries there are concerns over the democratic legitimacy of such bodies, whose membership may be quite *ad hoc* and perhaps less representative than local elected government bodies;

d. Finally, local banking or cash management facilities may be so problematic that the local body would simply be unable to manage its own grant without incurring excessive transaction costs.

UNCDF experience suggests that there is no universal answer on this issue, and that the decision on whether such downward transfers should be established will depend on weighing of these pros and cons by local stakeholders.

ii. A halfway allocation arrangement: the notional IPF

When the arguments against allocating block grants mainly concern local problems with financial management, a compromise arrangement may be for the higher level to

Box 22: Block grant transfers to formal community institutions

- Malawian area development committees (ADCs) – some trialling of block grants to ADCs is under way in one district, although there are concerns over the future role of ADCs, which are chaired by traditional authorities, as against the wards chaired by elected district councillors;
- Ugandan parish councils – these receive small block grants from sub-counties, although an evaluation study expressed concern over the resulting fragmentation of very limited funds;
- Malian fractions (hamlets) – do not receive transfers from communes because they are deemed to be too small; also because they are often dominated by clan groups;
- Cambodian village development committees – block grants were allocated initially, but stopped when the commune emerged as an embryonic form of local government corporate, so as not to compromise the integrity of the local planning process.

simply make a notional indicative planning figure (IPF) available. This allows the lower body to plan with some resource certainty, while the higher level retains financial management functions for those funds.

Whether such allocations to lower bodies are formally decided or not, LDP experience has shown that on the ground, many local governments tend to 'carve up their own block grant cake' to allow equal shares to the constituent community or ward areas. This amounts to an informal community IPF allocation (see Section B).

2. Selectivity or Universal Coverage?

i. General considerations

Should all lower bodies receive a block grant every year, or should there be selectivity to maximize the impact of scarce funds by focusing them on specific areas? Again, the answer depends upon the type of local body, as highlighted in Box 23.

Lower-level corporate local government bodies. For the same arguments given above, by virtue of their legally mandated responsibilities, transfers should be provided universally and non-selectively to all lower-level bodies within the territorial area administered by the higher level, subject only to the conditionalities of the performance-linked funding mechanism (outlined in Section D).

Lower-level administrative/consultative committees. Here there may be flexibility, and the relative merits of the pros and cons of selectivity need to be weighed:

a. **Pros**. On the one hand, the poverty-reducing impact of invariably scarce funds is probably maximized when these are devoted to a selected number of local bodies, especially if there are significant variations in the relative poverty levels of these areas, and/or in their abilities to use funds effectively;

b. **Cons**. On the other hand, such selectivity is problematic:

- It may be hard to defend politically if there are no robust and non-controversial disaggregated data on relative poverty levels for the lower-level units, thus causing local political difficulties for the higher local government trying to explain the skewed resource allocation to its constituents;
- It may also undermine efforts to mainstream an integrated planning and budgeting process at the higher local government level, instead reinforcing the more usual parallel 'project' approach.

Again, there is no universal answer to the question of selectivity, and the strategy should depend on careful weighing of these arguments in consultation with local stakeholders.

Box 23: Challenges related to non-selective funding

In Tanzania, where LDP fund allocations are very modest, this strategy has been difficult to implement because it entailed extreme fragmentation of scarce resources.

In Nepal, UNDP (and, initially, Government) were reluctant to agree to universal coverage on the grounds that funds should only be allocated to villages where social mobilization activities have been undertaken. Government then reversed its stance in the face of opposition to such selectivity from both district and village representatives. (However, the subsequent insurgency has prevented implementation of block grant funding to VDCs.)

ii. Criteria for selection

The arguments for selectivity are also related to the soundness of the criteria proposed for selection. Possible criteria fall under one of two headings:

a. **Equity:** ensuring that funds go where they are 'most needed'. The usual criterion relates to some aspect of relative poverty, neglect or isolation of the lower-level units. As noted, however, obtaining reliable and non-controversial measures for relative poverty or neglect of such disaggregated geographical units can be problematic;

b. **Efficiency:** ensuring that funds go where they will be 'best used'. Sometimes it is proposed that resources should be focused on those local bodies where there is some proven measure of capacity or accountability, or where it is easier to provide support (clearly, this may conflict with equity considerations).

3. Sizing Allocations to Lower-Level Bodies

i. The pool

Where it is decided to make such transfers, the share of the higher-level resources to transfer needs to be determined. Two sets of considerations apply here:

Box 24: LDP lessons in selective funding of community bodies

Ethiopia: Very restrictive poverty criteria were initially used for block grant funding of kebeles by woredas, with only some 30% selected. This was not a serious local political problem with constituents due to poor information flows and weak downward accountability mechanisms in Ethiopia, but it clearly resulted in the marginalization of the LPP from the routine woreda planning and budgeting cycle. Criteria have now been relaxed to allow the majority of kebeles to be funded.

Nepal: Advocates of community empowerment wanted LDP funds to be focused solely on VDCs where community groups had achieved a specified 'maturity level' (related to frequency of meetings, joint activities undertaken, group savings, etc. as measures of social capital and readiness to plan and manage funds accountably), through support received via the companion UNDP TA project. Local political pressure overturned this proposal, which was of dubious merit anyway, being relevant for small community group investments but much less so for local public investments.

Tanzania: The need for selectivity was mainly due to low per capita funding intensity, which only allowed block grant allocations to some 50% of VDCs. This undermined efforts to integrate VDC and district planning.

a. The amount transferred should reflect the relative planning and service delivery expenditure responsibilities of the two levels;

b. While also bearing in mind the absorptive capacity for planning, delivering and maintaining investment assets at the lower level.

There is no science to this. In practice, LDPs have favoured relatively generous downward transfers, generally ranging from **50% to 75%** of the higher-level block grant allocation. In Uganda, absorptive capacity was the main guide: the 65:35 sharing of local revenue between parishes and sub-counties was used as a proxy measure for relative maintenance capacity, so 65% of sub-county block grants were transferred down to parishes.

ii. The allocation formula

This leaves the question of the allocation formula used to distribute the pool of funds. Here, given that data on fiscal need (especially poverty measures) of these lower levels are even more unreliable than at the more aggregated higher local government level, LDP experience suggests that equity considerations are best met by simply using relative population data for the lower-level units (which is often problematic enough in itself).

Box 25: Allocation formula for lower-level bodies

Block grant to lower-level unit L = [K .H].[P^L .P^H] where:

L is one of the lower-level LG or administrative units selected for block grant allocation

K is the percentage share of the overall block grant allocation of the higher-level LG Unit H that is to be devolved to lower levels

H is the absolute size of the block grant to the higher-level LG unit H

P^L is the population of the lower unit L

P^H is the population of the higher-level LG unit H or, in case of selectivity, of all other lower-level units within H to which block grants are also to be allocated.

D. Linking Funding to Local Performance

1. Overview: Fiscal Transfers as Incentive Instruments

The convention in many countries is to calibrate grant transfers in order to encourage local fiscal revenue collection efforts (e.g. through simple matching or an effort-related variable in the formula). However, LDP experience also indicates that there is scope for more innovative ways of linking block grant allocations to LG performance in the area of public expenditure management, and even in broader areas of good local governance.

- On one hand, the purpose of introducing this linkage is simply to ensure that the funds transferred are used properly and in compliance with agreed rules;
- Additionally, the linkage also aims to create incentives for improved local performance and to increase demand for capacity-building support.

Where this linkage has been introduced in LDPs there are generally two elements to the mechanism:

- **Instrument 1: Establishing minimum conditions of access to block grants that aim to promote compliance with basic statutory and regulatory prescriptions for LG administration.** These aim to ensure that minimum conditions for sound public expenditure management and good governance are in place at the start of each funding cycle;
- **Instrument 2: Establishing performance measures to adjust the basic block grant allocation upward (or downward).** These aim to encourage LGs to comply with the type of broader pro-poor and governance policy guidelines that are not written into statute or regulation. They are designed to reward past policy-compliant performance (or penalize for deviation from it). As already indicated in Section B of this chapter, this instrument requires a reserve pool of funds

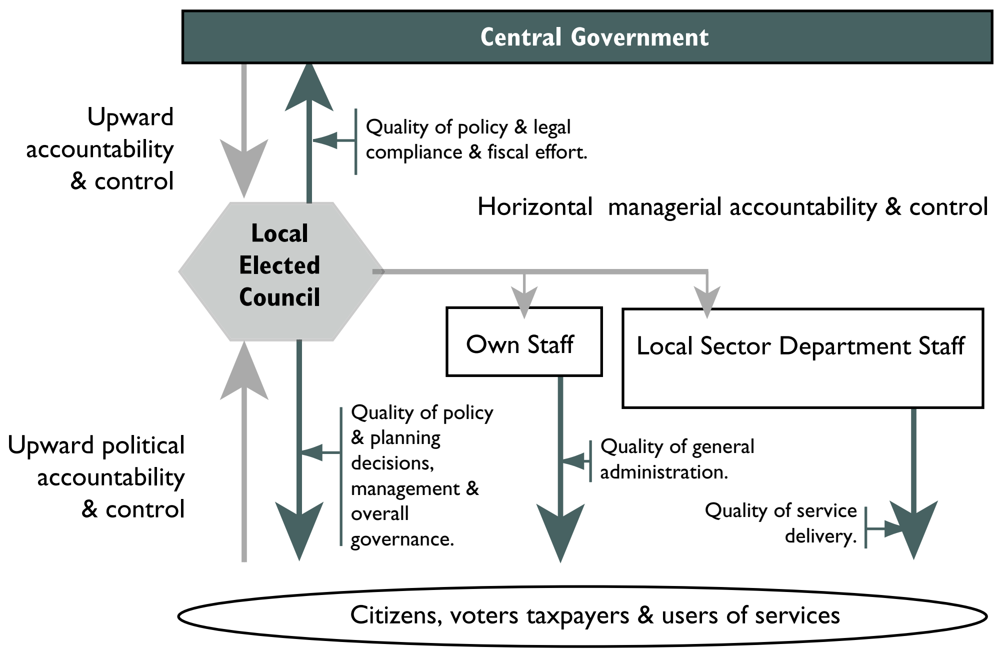
2. The Model: Performance and Accountability

Before detailing these instruments and the lessons learned from their application, it may be useful to step back and review the model on which the performance-linked funding strategy is founded. (See Chapters 1 and 4.)

The use of fiscal transfers as carrot or stick to induce improved LG performance:

- **assumes** the existence of some degree of local autonomy in decision-making and action, as well as basic political and institutional mechanisms by which both elected LGs and staff can be held accountable for these decisions and actions;
- **aims to 'activate'** these accountability mechanisms and thus encourage improved local performance.

Figure 4: Local Government: Generic Accountability Mechanisms



i. Formal mechanisms of accountability for performance

Figure 4 offers a simple reminder of the accountability mechanisms for local government, which are conventionally distinguished in three modes:

- **Downward political accountability and control**: whereby elected councils can be held accountable to citizens and voters through election, meetings, feedback, complaint and recall. As noted in Chapter I, the effectiveness of these mechanisms may vary greatly;
- **Horizontal managerial accountability and control**: whereby the local 'executive' branches of government can be held accountable to the elected councils. Again, as

noted in Chapter 1, the strength of this mechanism varies enormously according to the institutional topography of local government and administration – and can range from direct management control to dual supervision, to mere ‘coordination’ or periodic interaction. There are also mechanisms for holding local civil servants directly accountable to service users (see Chapters 1 and 4);

- **Upward administrative and financial accountability and control:** whereby local government is held accountable to central government (or its local representative) for its compliance with national policy and law.

ii. The need to activate these mechanisms

Even where these formal accountability mechanisms are in place, there is no guarantee that they will function as intended. For example:

- Local government staff and other local civil servants frequently operate without being asked to report to councils;
- The public may be poorly informed about the role of local government or decisions made by the council, hardly aware of local budget and expenditure patterns, and unable to ask meaningful questions or make informed judgements about councillor performance;
- Councillors themselves are often unaware of – or uninterested in – the extent to which staff conform to national rules on planning, budgeting, procurement and accountability;
- Central government may not be reliably informed about local government performance, or able to exert constructive pressure for improvement.

It was to redress these problems and activate the potential of the various accountability mechanisms that the performance-linked funding instruments were introduced, initially in Uganda and subsequently in many other LDPs (see Box 26).

3. Instrument 1: Minimum Conditions of Access (MCs)

In determining MCs the first step is to identify, together with national and local authorities, key provisions of local government legislation or regulation. Compliance with these is:

- considered critical to sound local public resource management and governance;
- within the control of LGs themselves, rather than being a function of external factors;
- verifiable in an unambiguous manner.

Actual MCs will clearly depend on national context. The following example summarizes current MCs for sub-county access to funds in **Uganda** (after four years of testing).

Table 8: Minimum Conditions of Access in Uganda

Minimum Conditions	Indicatators and their Statutory Backing
Functional Planning Capacity	• 3-year rolling plan approved by LG (LGA No. 36-3) • Functional planning committee (LGA No. 38-3) • Linkage between investment plan and budget (LGA No. 78)
Functional Financial Management Capacity	• Draft final accounts for previous FY (LGA No. 87) • Internal audit function in place (LGA No. 91)
Project-Specific Conditions	• Past FY co-funding met and 10% co-funding for the 1st quarter in place • LDG account opened

Note: LGA refers to the Local Government Act (1997).

Box 26: Uganda: the genesis of performance-linked funding

In 1996 the Ugandan government was preparing radical local government legislation that would transfer very substantial powers, responsibilities and fiscal resources to districts and sub-counties. Policymakers were very concerned to ensure good local performance, so as not to discredit the decentralization experiment and undermine a major plank in the programme for the restoration of good governance in Uganda.

UNCDF worked closely with the Ministry of Local Government in Uganda on the design of a grant modality with inbuilt performance incentives. Local authorities were awarded grants if they fulfilled certain minimum conditions; furthermore, the grant was adjusted according to detailed, nationally established performance guidelines for local government planning, procurement, accounting, etc.

The Ministry of Local Government invested considerable effort in broadcasting to the general public the conditions to be fulfilled by local authorities, the amounts of money they received, and the justification for increasing or decreasing grants following performance assessment.

As a result, the public became much more concerned about local government performance, as it now had a visible and direct link to service provision (the amount of development funds the council was allocated). Councillors also became much more interested in how their staff performed. While they had not been particularly concerned about the timeliness of accounts in the past, for instance, they now pushed staff to have them prepared punctually. In several cases account staff, planners, etc. who were under-performing were disciplined in various ways, and some were even sacked.

The list of MCs developed for union *parishads* (UPs) in Bangladesh is rather different, because of concerns about more basic aspects of the inner workings of local government (see Table 9).

Table 9: Minimum Conditions of Access in Bangladesh

Minimum Conditions	Indicators
Transparency, Accountability & Fulfilment of Basic Functions	UP meetings held in UP offices (not chairperson's house!) Past FY accounts inspected and approved Minimum effort at local tax collection
Involvement of Elected Women Members	Women members invited to UP meetings and involved in UP committees – LG circular
Project-Specific Conditions	Establishment of ward & union development committees to widen public input into UP planning, budgeting and monitoring

A set of phased MCs is used in **Mali**:

Table 10: Minimum Conditions of Access in Mali

Minimum Conditions by Year of Entry into Programme	Indicators
Year 1	Commune budget for next FY approved by local administrative authorities
Year 2	Commune budget for next FY approved by local administrative authorities Satisfactory performance in last FY
Year 3	Integrated commune plan Commune budget for next FY approved by local administrative authorities Satisfactory performance in last FY Bank account Local tax collection > 50% Regular council meetings Staff in place and paid

Whatever the particular differences between MCs in various countries, their application is based on several common principles:

a. MCs are usually directly derived from the provisions of the national legal and regulatory framework;

b. Satisfactory compliance (based on a consistent set of 'yes' responses or attainment of an overall minimum score) is a prior absolute condition for access to the next year's block grant funding;

c. All LGs must undergo an annual review. Over time the list of MCs may be broadened as expectations increase and/or wider responsibilities are devolved;

d. Most importantly, the aim is not so much punitive, but rather to use MC reviews to enhance local 'demand' for remedial capacity building, in order to encourage greater compliance with the established legal framework for local government.

Review procedures are outlined further below.

4. Instrument 2: Performance Measures (PMs)

MCs can be matched with PMs as a twin element in tying funding to performance. Rather than determining absolute access, PMs determine supplements to (or subtractions from) the basic allocation amount, based on more qualitative measures of past performance. UNCDF experience to date has shown that the use of PMs can provide a powerful incentive for building LG capacity and improving LG performance.

To illustrate, the PMs shown in Table 11 are currently applied to sub-county allocations in Uganda.

Table 11: Illustration of PM Indicators in Uganda

Performance Measures	Illustrative Sample of Indicators
Quality of Investment Plan	• Quality of poverty and problem analysis • Quality of environmental analysis • Capture of investment and recurrent cost links • Identification of development partners
Staff Capacity & Performance	• Integrated staff work planning • Staff reporting on investment performance • Evidence of staff support for village schemes
Communication & Accountability	• Posting of IPFs, approved projects, etc. on LG notice boards and other public places • Evidence that LG has communicated budgets and work plans of current FY schemes to the areas concerned • Evidence that LG has reported on the use of community contributions in the previous FY • Final accounts for the previous FY-1 prepared/submitted to Chief Officer • Dissemination of previous PM review results
Fund Allocation Performance	• Consistency between LG decisions and actual allocations through the financial year • Share of LDG on agreed poverty priority areas (health, education, water and sanitation, agriculture, roads) • Full utilization of LDG
Procurement Performance	• Compliance with procurement thresholds • Proper certification of payments in previous FY • Contracting-out of minimum share of LDG
Local Revenue Performance	• Percentage of revenue collected vs planned • Percentage increase in revenue collected in last FY over FY-2
Gender Mainstreaming Performance	• Investment plan reflects sound gender analysis and strategies • Budget reflects allocations to match strategies • Gender training planned and undertaken in last FY
Council, Executive & Committee Performance	• Meetings of council, executive and finance committees held, attended and minuted on a regular basis

Performance on each set of indicators is scored and used to determine whether the LG is eligible for a 20% top-up, a 20% reduction, or simply the basic allocation derived from the formula. Table 12 illustrates how scores are used in Uganda:

Table 12: Use of PMs to Determine Fund Allocation in Uganda

Performance Measures	Total Score	Minimum Score for 20% Top-up	Minimum Score to Remain Static	Score Warranting a 20% Penalty Cut
Quality of Investment Plan	10	7	5	4
Staff Capacity & Performance	10	7	5	4
Communication and Accountability Performance	10	7	5	4
Fund Allocation Performance	10	7	5	4
Procurement Performance	10	7	5	4
Local Revenue Performance	10	7	5	4
Gender Mainstreaming Performance	10	7	5	4
Council, Executive & Committee Performance	10	7	5	4
Eligibility for reward or penalty: Reward – LGs have to attain the minimum score (7) in all PMs to qualify for the 20% top-up Penalty – LGs attaining 4 or less in even one PM will lose 20% Static – in all other cases LGs will receive the basic allocation.				

In the Timbuktu Region of northern Mali, UNCDF began piloting the use of performance measures in 1999. The PMs and their budgetary consequences agreed with national and local authorities at the outset of the programme are shown in Table 13.

Table 13: Budgetary Consequences of PMs in Timbuktu, Mali

Performance measure	Consequences for IPF allocation in year N+1
1. Preparation of commune budget within legally specified deadline	5% reduction in the event of non-compliance
2. Compliance with LDF regulations on eligible investments in year N	Reduction of N+1 IPF by amount of funds used for non-eligible investments
3. Compliance with national regulations on procurement in year N	Reduction of N+1 IPF by 50% of the value of illegally procured investment
4. Fiscal effort in year N:	
• 80% of budgeted revenues collected	Increase N+1 IPF by 10%
• 60%-80% of budgeted revenues collected	N+1 IPF maintained at same level as N IPF
• < 60% of budgeted revenues collected	Reduce N+1 IPF by 5%
5. Commune council meetings in year N:	
• all meetings correctly minuted, minutes made publicly available and posted	Increase N+1 IPF by 5%
• 50%-70% of all meetings are correctly minuted and minutes made publicly available and posted	N+1 IPF maintained at same level as N IPF
• < 50% of all meetings are correctly minuted and minutes made publicly available and posted	Reduce N+1 IPF by 15%
6. Commune council meetings in year N:	
• > 80% of all council meetings open to the public	Increase N+1 IPF by 5%
• 50%-80% of all council meetings open to the public	N+1 IPF maintained at same level as N IPF
• < 50% of all council meetings open to the public	Reduce N+1 IPF by 15%
7. Commune funding of women-focused projects in year N	Increase N+1 IPF by 5%
8. > 10% of commune capital budget allocated to inter-communal projects	Increase N+1 IPF by 5%

5. Framework of Assessment of MCs and PMs

i. Importance of assessment procedures

LDP experience has shown that establishing the **procedures** for the sound and independent application of MCs and PMs is as important as determining the measures themselves.

ii. Prior agreements with local governments

The effectiveness of the instruments outlined above hinges on the existence of clear prior agreements with local government bodies, spelling out the 'rules of the game': expected performance standards and their implications, especially for funding. These are generally reflected in a memorandum of understanding (MoU) between the local authority and the supervisory central government department (e.g. Ministry of Local Government or Territorial Administration) or its deconcentrated representative in the area (governor, prefect, provincial commissioner).

6. Lessons on Introducing Performance-Based Funding

Overall, the introduction of the performance link to LG funding has had extremely positive results. It has proved to be an effective instrument in encouraging stronger LG performance, compliance with the legal and regulatory framework and broader national policy goals, and has attracted considerable interest from policymakers in several countries. Nevertheless, several cautions and qualifications need to be borne in mind.

i. Limitations of linking funding to performance outcomes

Firstly, it is important to be clear about the limitations of this instrument. Ideally, it should be possible to tie funding of LGs to their success in achieving real service delivery and poverty reduction impact: to the attainment of MDGs and improvements in the number of children educated, sick people treated or poor people brought above the poverty line. It is certainly very important to monitor the extent to which such outcomes are periodically achieved. However, it is not practical to attempt to institute direct links between measures of such outcomes and annual block grant funding. This is due to:

a. The high cost and complexity of undertaking regular annual surveys of such outcome indicators in every LG area;

b. The 'attribution' problems that would have to be addressed, since LGs can often legitimately claim that such outcomes also derive from broader factors outside their control;

c. The flexible use allowed for unconditional block grants, which means that neighbouring LGs may use funds for quite different sorts of service expenditure, greatly complicating comparison of their respective performance outcomes.

For these reasons, unconditional block grant funding within LDPs has been more closely tied to performance on 'process indicators' (MCs and PMs), as more easily measured proxy measures of likely performance outcomes.

Box 27: Uganda: procedures for assessing MCs and PMs

The procedures followed in Uganda are outlined below. They involve a two-step process of internal assessment by LGs themselves, followed by external assessment by an independent team.

a. Preparation/adjustment of the manual – a comprehensive manual has been prepared, and is periodically updated (now mainstreamed by MLG);

b. Orientation of assessment teams – basic orientation is provided for both internal and external LG assessment teams;

c. Internal assessment - each LG undertakes its own assessment with an internal team (which may include local NGO/CSO representatives), following a common format;

d. External assessment – the internal assessment is verified by an independent team reporting to MLG (possibly on a sample basis for lower-level LGs, due to workload), with consultative feedback to LGs.

Conversely, conditional or sector grant funding lends itself rather more easily to links with specific service delivery performance outcomes. Indeed, these are being introduced in a number of countries.

ii. Institutional and policy context prerequisites

The effectiveness of performance-related funding mechanisms is dependent on several factors related to context:

a. **Degree of corporate or downward accountability of local governments to citizens.** In some countries, sub-national structures are essentially deconcentrated 'district administrations', either with no corporate status and corporate accountability (like the district administrations in Mozambique, or former DDCs in Malawi), or mainly accountable to central government (the current district administration in Nepal, where local elected bodies have been suspended). In such cases, the scope for introducing performance-based funding is much more limited: it can be tied to minimum conditions related to aspects of legality and regulatory compliance by local staff, but it is not feasible to link funding to compliance with broader performance measures related to policy goals such as pro-poor budgeting;

b. **Clarity of service provision responsibilities.** In cases where responsibilities for particular services are divided between central government institutions, semi-independent boards and local authorities, it is difficult to hold an LG accountable through performance-based funding;

c. **Level of financial autonomy enjoyed by local government.** In several countries the autonomy of LGs encompasses the right to tax, budget and spend within given central government direction. In practice, LGs may face severe budget constraints and have limited or no discretionary funds. However, a well-designed LDP can

Box 28: MoUs on performance-based funding: conditions for effectiveness

LDP experience indicates that such formal agreements have proved to be a very helpful tool in dialogue with local authorities and in encouraging improved local performance. However, their effectiveness depends on:

- the agreement making it clear that capacity-building support, development of local planning procedures, etc. may proceed without any guarantee of block funding if performance does not meet agreed standards;
- the agreement itself being discussed and endorsed within the LG council as an official part of LG business (to prevent newly elected council officials from disowning previous 'personal' agreements);
- the terms of the agreement being made as public as is possible, to ensure local pressure on local government officials to improve performance.

overcome this practical constraint, provided the legal and institutional framework for autonomous local government budgeting and accounting is in place;

d. **Degree of local government control over staff.** In cases where local authorities are not fully responsible for the hiring of staff and disciplining or firing of under-performers, it is difficult to hold the council responsible for the quality of staff performance in general LG administration or in specific service sectors. Thus, in countries like Tanzania and Ethiopia, persistent central control over local staff may be a constraint to introduction of the system.

In summary, a system of incentive-based allocation of development funds to local authorities can only work effectively if the basic legal framework establishes local bodies with some minimum degree of operational autonomy and corporate accountability.

iii. Programme prerequisites

Certain programme design features also need to be fulfilled if performance-related funding is to feed into policy and be institutionalized:

a. The programme needs to be institutionally well anchored within central policy-making bodies (generally Ministries of Local Government or Territorial Administration). Experience indicates that continuous and intensive dialogue with central policy makers is needed to develop complex systems such as the introduction of LG rewards and penalties into the fiscal transfer system. In certain large countries such as Ethiopia, Tanzania and Mali, the LDP has been administered mainly at intermediate regional level, where the main concern has been implementation of infrastructure development on the ground. There appears to have been little policy impact in these countries;

b. The programme needs a minimum number of annual funding cycles for the systems to become operational, be adjusted, have an impact on actual LG performance and allow time for analysis, documentation and dissemination of impact. At least three cycles are probably necessary. Introducing the systems as part of a reorientation of LDP programmes with only one or two years left to run is probably overly optimistic, and has certainly proved difficult in countries where this has been attempted;

c. The programme needs stable and reliable funding. Recent LDP budget reductions by UNCDF resulted in unplanned block grant reductions to LGs, and have inevitably undermined attempts to tie LG funding to performance. Conversely, the system may also be discredited if disbursement pressures encourage overly relaxed assessments of LGs. This occurred to some extent in a later phase of the Uganda LDP, where the system was scaled up to cover the entire nation over a short time period through an IDA Credit.

iv. Need for clarity and consistency

Operational experience has highlighted the need for clarity, consistency and overall practicality in the measures to be introduced.

Although these PMs were successfully applied in Mali (Timbuktu) from 1999 to 2002, a number of problems emerged in their application due to design flaws:

a. Because each PM had its own ‘separate’ budgetary consequence, the Timbuktu LDP was unable to predict what its total LDF support to the communes would be from year to year. There were no upper or lower limits, as specified in the Uganda system. Clearly, this is not a good model for a fiscal transfer system, indicating the need for an allocation mechanism that clearly distinguishes between the predictable core allocation and the more modest performance allocation (as adopted in Uganda and more recently in Mauritania and Rwanda);

b. While the PMs linked to fiscal effort appear to have had a significant impact upon revenue collection, they created problems for the performance evaluation system. Because fiscal effort in year N could only be assessed at the very end of the year, the final calculation and announcement of commune IPFs for year N+1 came after communes had prepared their budgets for year N+1. Communes were thus preparing their investment budgets on the assumption that they would be allocated at least the same IPF as the year before, when in practice they were often smaller or larger;

c. There were persistent problems in the definition of women-focused projects. Some commune authorities found it difficult to accept that the wells they had funded (which clearly were of major benefit to women) were not considered by the project to be women-focused. This highlights the need to have clear definitions from the outset (see also Box 12.)

Similarly, experience from Niger has pointed to the need to avoid 'overkill', be consistent and to be clear in applying performance criteria. An evaluation revealed that:

d. the Community Development Fund had specified *ex post* performance measures related to the proportion of resources used for environmental and women's schemes, but had also imposed *ex ante* minimum thresholds for these, implicitly allowing more local discretion. This double policy control was excessive and inconsistent;

e. performance measures that simply referred to the 'quality of commune financial and administrative management' had been applied – measures that were clearly far too vague to be of use as a criterion of performance.

v. Further piloting the role of performance incentives: the case of gender mainstreaming

Finally, and with the qualifications outlined above, much more trialling needs to be done to understand the scope and limitations of this innovation in promoting good local governance. One area that seems promising, but still needs to be better understood, is the creation of incentives for LGs to mainstream gender concerns. This can be done in various ways, such as:

- Ensuring adherence to laws and regulations regarding female participation on elected LG bodies, LG standing committees, etc.;
- Ensuring that gender concerns are adequately reflected in the Local Development Plan and in the processes, tools and outcomes of the local planning and budgeting process.

Box 29: Two examples of gender mainstreaming incentives

The following PMs are applied to districts in Uganda:

- District Development Plan reflecting sound gender analysis, including disaggregated data and gender impact analysis;
- District Development Plan reflecting strategies to address the gender issues identified in the analysis;
- Annual budget reflecting budgetary allocations to address the gender strategies raised in district plans;
- Evidence that the district/municipality has financed the gender issues identified by the DDP during planning, monitoring and mentoring activities.

In Bangladesh, one of the MCs for access to funding stipulates that elected women LG members should be properly notified by the chairperson of all council meetings, and allowed to attend and speak at them.

As yet there is insufficient evidence to fully demonstrate the effectiveness of these kinds of incentives.

E. Legitimate Uses of Unconditional Development Block Grants: 'Menu' Considerations

In Section A of this chapter the LDP funding strategy is presented as aiming to pilot an unconditional development block grant funding mechanism within a broader IGFT framework. However, UNCDF experience in developing menus of eligible expenditures suggests that the 'development' and 'unconditional' qualifiers both need more careful clarification.

1. Development vs Capital Expenditure

i. Two different distinctions

Contrary to popular usage, development and capital expenditures are not synonymous. Rather, two sorts of distinction need to be made, between (a) capital vs recurrent expenditure, and (b) development vs routine administrative expenditure. (See also the discussion of budget categories in Chapter 3).

a. Capital versus recurrent expenditure

Here the distinction essentially concerns the accounting time period within which assets are 'consumed', and thus after which they need replacing. To put it another way, and given that the usual financial accounting period is 12 months, it is a distinction between (i) those items that are consumed within one year, and which therefore require regular annual expenditure for their replacement, and (ii) those requiring replacement at intervals of more than one year (usually several years). The former are items of recurrent expenditure, the latter of capital expenditure.

Box 30: Difficulties in defining capital expenditure

Usually it is easy to apply this distinction: salaries, fuel, stationery, utility bills, etc. are obviously recurrent items; while vehicles and school buildings are obviously capital purchases. The problems arise with the arbitrary accounting period on which the distinction is based:

- Firstly, there are some assets that 'should' be replaced or repaired every year to maintain their productive value (certain kinds of equipment for schools or clinics, for example). Often they are not, in which case, does this mean that they become capital expenditures? Similarly, routine road maintenance should be a recurrent expenditure to preserve the value of road assets, but all too often this expenditure is not made and rehabilitation investments are needed a few years later. Thus, by default recurrent expenditures become capital expenditures! Both examples illustrate the interrelationship between regular maintenance (recurrent expenditure not made) and periodic rehabilitation (capital expenditure).
- Secondly, some countries have accounting definitions that conflict with this principle, for example, simply defining any purchase over $ 5,000 as 'capital'.

b. Development vs routine administrative expenditure

This distinction essentially concerns the end purpose of the expenditure, differentiating between (i) expenditure on activities geared towards maintaining present performance of assets and personnel, and (ii) expenditure on activities geared towards permanently increasing performance within a defined period, through some sort of investment in enhanced capacity (human, institutional or physical). While the latter may usually require capital expenditures, it will often require some degree of recurrent expenditure as well (even 'development projects' require some expenditure on fuel!) (see Table 14).

Table 14: Typology of Expenditure: an Illustration

Purpose of Expenditure	Capital	Recurrent
Development or Programmatic Expenditures (Legitimate LDP menu items)	Construction or rehabilitation costs for new roads, schools, wells, etc. Equipment, furniture or revolving funds for school, health and other facilities	Trainers' salaries for skill development projects, engineer's fees or field visit costs for design of a new road or well
Routine Administrative Expenditures (Generally not legitimate LDP menu items)	Local government vehicles, buildings and equipment	LG establishment and other regular civil servant salaries, councillor allowances, fuel for local government vehicles.

ii. Implications for the menu

a. Identifying legitimate expenditures

Failure to recognize the difference between development and capital expenditures has probably further encouraged an inherent hardware bias in LDP investment funding, as both project staff and local government officials have often simply assumed that only capital expenditure was legitimate. In actual fact, development projects often contain legitimate recurrent expenditures that can be financed from the LDP block grant (in certain cases, such as training programmes, it may even consist entirely of recurrent expenditures).

b. Funding administrative capital expenditure

There are frequent requests to fund exceptions to the LDP focus on development expenditures, such as administrative capital expenditure on the repair or construction of local government buildings, desks, typewriters or notice boards. Such expenditures are undeniably legitimate as part of the local capacity building effort. LDPs have adopted two different approaches to this:

- In some countries, it was agreed to allow a limited percentage of the block grant to be used for these purposes (20% in Uganda), but to impose sanctions through the performance review mechanism if these limits were exceeded;

- In other countries these expenditures were ruled out of the block grant and addressed separately, through separate capacity building budget lines.

2. How Unconditional Should Local Use of the Fund Be?

The underlying rationale of an unconditional block grant is to allow flexibility and local discretion in local resource allocation, thus leveraging the inherent advantages of local decision-making bodies (better knowledge of local needs and conditions, and greater accountability pressures deriving from decisions made locally and therefore defended locally) rather than straitjacketing them with earmarked funding where priorities are already established. This is indeed the sense of developing the role of local government authorities as 'principals' in their own right, rather than as spending 'agents' of the centre.

Nevertheless, basic principles and UNCDF experience suggest that there is a need to establish limits or boundaries to local discretion in the use of these block grants.

i. General considerations

As discussed above, the grant should be restricted to funding (hardware or software) development expenditures with clear outputs and within a finite or limited time frame. It goes without saying that these should have emerged from and been approved through the LPP and the local government budget.

Clearly, one limit to such local discretion lies in the legal mandate of the local government body in question, which will normally spell out a more or less well-defined range of functions, and hence expenditure assignments. This range of functions will usually have been more clearly articulated in the LDP design with regard to principles of subsidiarity, tempered by economic and fiscal externalities (See Chapter 3).

ii. Productive investments with private benefits

One question that frequently arises concerns the use of LDP block grant funds to finance productive investments that are often of direct benefit to relatively few members of the local community, such as small irrigation schemes benefiting a few farmers. Such investments approximate to private goods.

Put very simply, economic theory suggests that public funds should be focussed on funding public goods and merit goods, while private goods should be funded by private individuals, farms and firms, supported where necessary by (quasi) market sources of finance (MFIs, banks, etc.). Economic theory cautions that allocating public funds for direct funding of private investments is generally to be discouraged, since:

- it is a diversion of scarce resources away from more important public goals;
- it undercuts incentives for private investment in the same activities; *and*
- it subsidizes a favoured few who can access the benefits of private investments.

a. The case for public funding of private goods

In the face of these arguments, what is the rationale for using public local government resources to fund private productive investments? Essentially, it is that there are some private productive goods which, like certain private social goods (such as primary education), can be funded privately but which will in practice tend to be under-funded if left to market forces, and will thus be supplied below the levels considered desirable (for economic, social, or environmental reasons) due to 'market failure'. They are, in other words, types of merit goods on a par with primary education or primary curative health care (see Box 31).

b. Cautionary lessons: local reluctance to fund productive investments

Despite these arguments, there is often local reluctance to use public funds for this type of investment (see Box 32). LDP experience has shown that although there is usually no legal bar to supporting them, such productive investments constitute a very small share of the investments selected in the LPP, as LGs usually have some (albeit vague) legal mandate to support economic development in general, and agriculture and related activities in particular. So what are the reasons for this reluctance to allocate resources to such activities? LDP experience suggests several factors that may be involved:

- **Limited technical capacities.** The simple identification of productive investment proposals (especially in agriculture-related activities) often requires a degree of technical expertise that may not be readily available locally. By contrast, the merits of social facilities are known to all, and constitute 'off the shelf' proposals whose formulation requires little upfront technical expertise;
- **Aversion to skewing resources to too few beneficiaries.** Furthermore, there is good reason to believe that decision-making processes within the LPP may be biased

Box 31: Productive merit good investments: examples of local market failure

- Upstream watershed/catchment protection investments, which may bring some modest direct benefit to farmers on whose land the works are undertaken, but which mainly indirectly benefit farmers downstream, whose land is saved from flash flood runoff and erosion, but who are in no position to undertake such investments;
- Land development or soil recapitalization, which may not bring immediate benefit to the farmers concerned, but which generate much longer-term benefits for future generations outside their own economic time horizons;
- Community grain mills, which may bring some direct financial return to the operator(s), but which bring far greater indirect benefits to users (mainly women) by freeing them from the manual drudgery of pounding grain;
- Community irrigation schemes, which bring direct benefit to the farmers concerned, but which also enhance the food supply and welfare of the wider local community, whose access to the regional food market may be very limited.

Box 32: LG unease about funding agricultural investments in Uganda

In the five districts of the DDP the total share of LDP block grant resources allocated to productive investment has only been about 4%. The (1999) internal review team found "many LGs cautious about investing in the agricultural production sector". The chairperson of one sub-county was quoted as saying: "Agriculture is tricky because different people have different interests and it is difficult to monitor and control".

Furthermore, the team remarked that "the range of conflicting policies for input subsidy, ownership and extension services confuse and conflict with the recognized supportive and enabling responsibilities of local governments".

towards investments that yield widespread benefits (such as social facilities), especially when these processes are participatory and consensus-driven. By contrast, productive investments typically benefit directly only a small fraction of the local community, and it can often be politically problematic for local leaders to allow such evident inequity in benefits.

More dishonest local politicians may not always be bound by such scruples, and may see the chance to extract their own pay-off from such investment beneficiaries, although such short-sighted political self-interest is less common than is often presumed;

- **Technical inadequacies in the LPP.** The latter bias is probably reinforced by the fact that the technical tools developed within LPPs are themselves often biased towards proposals with the most expected beneficiaries, and typically do not allow the sort of weighing of economic benefits and costs that would be required to justify prioritizing an 'efficient' but relatively 'inequitable' proposal.

c. Experience with green or productive funding windows

As a reflection of the concern that certain types of investment may be under-prioritized, a number of LDPs have demarcated specific funding windows. This approach has probably been taken furthest by the Niger LDP (see Box 33).

Box 33: LDP funding windows in Niger

The local support fund allocated to individual communes has been set up with two distinct components:

The commune fund: 60% of overall resources are earmarked for public social infrastructure (and where local matching funds equivalent to 10% of investment costs are required).

The community development fund: 40% of overall resources are earmarked for investments that are directly productive (and where local matching funds of 15%-20% of investment costs are required). At least 25%-35% of these resources are to be allocated for investments benefiting women, and at least 10%-15% for environmental investments.

3. A Postscript on Conditional Funding

The overview of various centre-local fiscal transfer arrangements in Chapter 2 is a reminder that unconditional block grant transfers usually co-exist alongside more conditional transfers. The arguments for conditional grant funding arise precisely because of the kinds of bias to local choice suggested above. That is, where the expected bias of local discretionary resource allocation decisions is thought to neglect broader national social or economic objectives (such as local economic development or environmental protection), there may be an argument for imposing some degree of 'override' or 'ring-fencing' on part of the resources transferred.

- The merit of establishing a conditional grant mechanism or window (for environment-related or productive investments, for example) is that it encourages local resource allocation toward goals of national importance that are otherwise likely to receive low local priority, by eliminating the 'opportunity cost' in the local decision-making process (since the funds cannot be used for other purposes, they must be used for the specified purposes or not at all);
- The arguments against conditional grant mechanisms are that introducing conditionalities of this sort (a) second-guesses local priority-setting, and often introduces policy goals that are inappropriate and reflect inadequate understanding of local issues; and (b) simply adds to the disproportionate number of restricted funding mechanisms (and associated reporting requirements) under whose weight local governments already labour.

F. Local Resource Mobilization

1. 'Counterpart' or Matching Contributions

Most LDPs provide for counterpart or matching contributions to investments by communities and local governments.

i. Community contributions

In most LDPs, external subsidies to LGs for capital expenditure have generally been conditional upon the mobilization of some kind of community contribution to investment costs. The relative importance and nature of this community contribution have varied a great deal, as shown in Box 34.

Box 34: Community contributions in LDPs

Viet Nam: Communities were expected to contribute 10% of the cost of all infrastructure investments, in cash or in kind.

Mali: For capital equipment investments (such as boreholes), communities are expected to contribute 5% in cash; and for construction works (such as clinics or schools) they are expected to contribute 10% of the costs, in cash and/or kind.

Nepal: All community contributions are to be in kind: communities are expected to contribute 10% for general construction works and focused projects deemed to benefit women or disadvantaged groups, and 15% for all other investments.

The arguments in favour of insisting upon some kind of community contribution towards rural investments are well known, and part of the orthodox approach to development. In brief, it is assumed that community contributions represent an important degree of buy-in and local ownership, and that this implies local commitment to the subsequent management and maintenance of any investment. It is also thought that they guard against the emergence of a 'welfarist' mentality. (The fact that the same sorts of investment are usually undertaken in wealthier urban areas with no such expectations of counterpart contributions is often ignored).

Although there is little doubt that community contributions are important, experience from LDPs has shown that their management can sometimes be problematic. A number of lessons about community contributions need to be noted:

a. Nature of the investment. Community-level contributions are only appropriate for specific types of community investment:

- Where the beneficiary public is highly localized or easily defined, such as a village primary school or village water supply system. If the beneficiary public is much larger or more diffuse, as with an inter-village road, a school hostel or an HIV/AIDS awareness-raising campaign managed by a local government, community-level contributions are likely to be difficult to mobilize – and are anyway simply unfair. In such cases of local public investment, community contributions should take the form of counterpart funding from the LG capital budget;
- In cash-poor areas or seasons communities may find it difficult to raise the money required and therefore contribute in kind; possibly through labour, if the technology of the investment allows. This then precludes more 'high-tech' installations such as solar power units, particularly deep boreholes, etc.

It will therefore be necessary to develop 'menus' of investments – which will vary somewhat according to context – in each category to ensure a consistent and equitable approach to community contributions.

Table 15: Investment Menus

Clarifications	Types of Investment	
	Local Public Investments	Community Investments
Characteristics	Many, diffuse users and no clear or intimate beneficiary group; technically more complex	More clearly defined and smaller, intimate group of users and beneficiaries; technically more straightforward
Illustration	Inter-community roads; large inter-village watershed protection works; secondary schools with wider pupil catchment area; deep boreholes	Small irrigation schemes; village roads, culverts; community nurseries; shallow wells and hand pumps
Implications for Local Labour Payment	Voluntary labour not forthcoming (indeed unfair); labour should be paid	Voluntary unpaid labour is reasonable; in fact, paying for labour would undermine market and cooperation incentives.

Failure to make these distinctions means either that the planned contribution will not be forthcoming because it is unrealistic, thus blocking implementation; or that one sub-set of beneficiaries has been unfairly burdened with costs that should be borne by a broader set of users.

b. Type and level of community input. There are issues concerning both cash and labour inputs for community investments:

- **Cash.** Investments that do not lend themselves to 'in kind' community contributions of labour or materials for technological reasons (e.g. boreholes) are thus more likely to require cash contributions.
  - The scale of local counterpart funding needs careful consideration. If such cash contributions are too high, they are likely to penalize poorer communities;
  - A second point concerns cash contributions from communities, and how they are to be accounted for. Should such funds be transferred to LG accounts, and if so, how? Or should communities hand over their community contributions directly to contractors? If so, at what point, and through what kind of disbursement process? (See Part III of Chapter 3 on *Investment Scheme Implementation*).
- **Labour.** Where labour contributions are feasible, two points should be noted:
  - They need to be carefully managed so that they do not 'interfere' with or slow down contractors' inputs. If, for example, the local community contribution for a well is to provide sand or gravel for mixing concrete, it will usually be necessary to ensure that this is done prior to the onset of any contractor's input;
  - The value of community contributions in kind may sometimes be difficult to evaluate, and if such contributions are 'required' by LDPs, their assessment may not be a simple task.

c. Importance of realistic costing. Finally, an important but frequently neglected detail is the need for proper, upfront costing of proposed investments. If the cost was underestimated but work has begun and commitments been made, it is all too often the communities that have to shoulder cost overruns (See Part III of Chapter 3, and Box 35).

The point here is that while community contributions may be eminently appropriate, they also need to be thought through more carefully than has often been the case in UNCDF experience.

Box 35: Consequences of poor initial cost estimates

A small bridge in Nepal ended up costing about twice the original estimate. The local community was thus obliged to find the funds to pay for the cost overrun, and ended up funding some 60% of total costs rather than the anticipated 10%. This caused considerable local distress and undermined good relations with the local government authorities.

Box 36: Community contributions: a final cautionary lesson

Ultimately, LDPs aim to demonstrate policy-relevant innovation. In this regard, the examples of both China and Viet Nam illustrate the dangers of excessive local government reliance on extra-budgetary 'community contributions' through prescribed labour and other community charges and levies. Experience has shown that not only is a disproportionate burden of these contributions borne by the poor, but that they may also be subject to abuse by local officials and a source of increasing local discontent and political instability in rural areas.

ii. Local government contributions

Some LDPs (Senegal, Madagascar, Nepal, for example) have required LGs to contribute to specific projects funded by the LDP funding facility. This has often been done on a fixed percentage basis, in cash. Again, while this may seem an entirely reasonable way of encouraging LG ownership, several cautionary lessons have emerged from such attempts to foster LG contributions on a project-by-project basis:

a. Raising the LG contribution from LG resources (e.g. local tax revenues) prior to any co-funding of agreed micro-projects may result in considerable delays in subsequent implementation. In francophone Sahelian countries, for example, where *commune* revenues are largely derived from capitation taxes, those revenues are often not collected until after the harvest, late in the calendar year. Thus, a micro-project budgeted for at the beginning of the calendar year may not be able to start until very much later – substantially reducing the chances of completion before the end of the year;

b. LGs in many countries have access to very limited revenues of their own. By making LG contributions to specific projects a precondition for LDP funding, LDPs may be forcing LGs to cut down on their recurrent budgets (by allocating resources as contributions to their capital budgets). This may not be helpful, especially given the need to ensure O&M for both new and older infrastructure assets;

c. In some countries, certain LGs derive resources from revenue-sharing arrangements with the State. For example, Senegalese communes that have a police station in their territory receive a percentage of the fines levied by that station. This can provide them with greater resources than other communes, even though it does not reflect on their efforts to raise revenues. Therefore, such LGs may profit more from cost-sharing arrangements imposed by LDPs than other LGs without police stations, which must rely entirely on their own fiscal efforts to satisfy cost-sharing conditionalities – which is clearly not equitable;

d. Insistence upon LG co-funding may sometimes lead to an excessive burden being placed on LG resources. In Uganda, for example, UNCDF's LDP is not the only project requiring co-funding. Because it encourages ownership, some other donors require their own co-funding for project funds to be released. Local governments are now claiming that they are overburdened with co-funding requirements, and that it is virtually impossible for them to reach their co-funding requirements at current levels of revenue generation. Both UNCDF and other donors recognize this problem, but the process is slow and local government allocations will decrease without the co-funding inputs.

2. Direct Support for Local Government Revenue Mobilization

i. The rationale

Given the various problems associated with LG cost-sharing arrangements outlined above, in principle it is more useful for LDPs simply to promote greater overall LG fiscal effort than to focus on community or LG contributions for specific investments. There are at least three reasons for this:

a. Firstly, a focus on overall fiscal effort has the advantage of avoiding many of the issues highlighted above regarding LG/LDP cost-sharing arrangements for specific projects. It is therefore probably more effective in ensuring the economic matching resource benefits;
b. Secondly, while no LG can or should expect to be fiscally self-sufficient, attainment of some minimum level of own-source revenues, which can be spent largely at their own discretion, is key to the financial and economic viability of LGs;
c. Thirdly, promoting local tax revenue collection efforts may produce less obvious but potentially powerful benefits through local politico-institutional development and the emergence of a viable LG polity. Recent scholarship points to evidence that greater tax collection activity (especially when levied on personal incomes and wealth, rather than as economic rent on natural or mineral resources) results in greater overall pressure by citizens for improved downward accountability on the part of (local) governments.

ii. LDP strategies for promoting local revenue mobilization

The lessons learned from LDPs suggest several strategies that may be used to promote greater LG fiscal effort:

a. **Enhancing information and awareness.** It is important to promote general public awareness of the importance of local taxation and the uses to which local revenues

Box 37: Promoting revenue information and awareness in Mali

The LDP in northern Mali has worked with commune authorities to develop simple computer-based Excel models generating:

- detailed data sets of commune tax revenue bases, with future revenue projections under different scenarios;
- multi-year projections of the levels of recurrent commune expenditures required to ensure adequate maintenance of commune investments under different scenarios.

This has contributed to a much keener awareness in communes of both the opportunity and the need to improve local revenue collection efforts, and has provided tools for improving and monitoring this effort.

Box 38: Promoting better tax collection practices in Uganda

Although graduated personal tax provides 80% of rural LG own revenues, it is not collected effectively or efficiently. To improve this, and in partnership with the Local Government Finance Commission, the Ministry of Local Government and the Ugandan Association of Local Authorities took the following steps:

- Collection procedures were broken down into a series of 16 discrete steps: from taxpayer registration, assessment, printing and issuance of tax tickets through to collection, internal controls and appeals, and including tax official training and community sensitization;
- Nationwide LG consultations and workshops allowed bottlenecks, critical path sequences and local innovations and good practices to be identified at each of these steps;
- A detailed timetable for undertaking the 16 steps was set out to ensure timely enumeration and assessment, so that local tax revenue estimates are available in time for LG budget deliberations in April, and tax tickets are printed and issued in time for tax payment in July;
- Best practices were codified for each of the 16 steps, guidelines developed and disseminated and officials trained;
- Local registration and enumeration committees are established, lists of taxpayers maintained, updated and published, and local appeals boards set up to adjudicate disputes on income bands and exemptions;
- A reward scheme was instituted whereby tax collectors are allowed to retain 10% of proceeds, chiefs of parishes where collection is completed first are given bicycles, and 'best tax payers' awarded prizes;
- Taxpayers who are 6 months late must pay 50% penalty charges, and chronic latepayers are obliged to do community work.

are put, to encourage payment and dispel cynicism. That said, it is also important to support the information database of local governments themselves (see Box 37).

b. **Innovations in procedures and practice.** The effectiveness and efficiency of LG local revenue collection is frequently compromised by unclear, inadequate, opaque or inconsistent procedures and guidelines. A focused effort has been undertaken within both the Uganda and Bangladesh LDPs to develop and disseminate better procedures and practices for LG revenue mobilization and administration procedures, training, citizen awareness, etc. (see Boxes 38 and 39)

c. **Incentives:** building fiscal performance measures into the block grant allocation mechanism so that better collection effort is rewarded. This goes beyond the more problematic matching fund approach outlined in section F1 of this chapter (see also Box 40).

Box 39: Promoting better tax collection practices in Bangladesh

Tax collection performance by union parishads is chronically poor. In order to remedy this the LDP has introduced the following measures, which have now been disseminated nationally by the Ministry of Local Government, Rural Development and Cooperatives:

- A clear standardized timetable of activities to be followed by all union parishads in enumerating and assessing taxpayers, estimating local budget revenues, collection and reporting, etc.;
- More detailed guidance on how land and property assets are to be evaluated and taxes due assessed;
- Establishment of tax payment desks at local markets;
- Standardized commission arrangements for collection officials, and rewards for best collectors;
- Discounts for early payment of tax;
- Introduction of 'tax pass books' for each taxpayer, to be produced as a condition for issuance of civil documents (e.g. birth or marriage certificates) by local government and administration authorities.

In addition, union parishads are being encouraged to make budget sessions public, to publish information on revenues and expenditures, and to sensitize the public on the importance of local taxation.

iii. Local government revenue sharing

Another way of promoting local revenue mobilization is to share these resources locally, between higher and lower levels of local government. Several countries have instituted policy for such sharing, inspired by the view that the more the lower levels can retain, the greater the local transparency and incentives for local tax payment. While this has considerable potential, care should be taken to ensure that the detailed procedures are clear and consistent (see Box 41).

G. Management and Control of Funds

1. Budget Approval and release of Funding

i. Approval

Firstly, the local government budget needs to be formally approved:

- In some countries (such as Uganda) this simply requires local government council approval (central government control is exercised entirely through *ex-post* audit, inspection and the judicial process);
- In others, it requires review and approval (for *legalité* or regulatory compliance) by the designated central government department or its local representative (*agence de tutelle*).

Box 40: Different strategies on incentives for improved local revenue

Demanding a minimum local fiscal effort

In Bangladesh, a minimum condition for allocation of LDP block grants where local revenue efforts have been very weak requires union parishads to collect at least 50% of their assessed revenues in the previous fiscal year.

Two approaches to rewarding improved local fiscal effort

The basic allocation formula: in Senegal the LDP block grant allocation formula for communautés rurales includes a variable denoting the relative fiscal effort (actual collection as a percentage of potential revenues) of each CR compared to the average fiscal effort of all other CRs in the previous year, which is used to allocate 35% of the pool.

Performance bonuses: elsewhere LGs are sometimes awarded allocation bonuses. Thus, LGs in Bangladesh receive additional PM scores for year-to-year improvements in fiscal effort above 50%, which lead to upward adjustment of block grant allocations.

Box 41: The devil is in the detail: local revenue sharing in Tanzania

For some time now, budget guidelines in Tanzania have stipulated that 20% of local taxes should be returned to sub-district level (village or Mitaa). Interpretation of these guidelines has varied greatly in different districts with regard to:

- The type of taxes that should be shared (development only, or levies on agriculture, bicycles, etc. too?);
- The extent to which the village or ward is responsible for managing funds, and how these are shared;
- The level of local autonomy in managing these funds;
- Internal audit arrangements.

This has naturally led to very different outcomes regarding:

- Effective incentives for increased revenue generation;
- Actual amounts spent on development rather than administration;
- Levels of accountability and mismanagement of funds.

ii. Timing, sizing and conditions of fund release

Once notice has been given of this formal endorsement, funds can be released. Usually the approved block grant will be released to local governments in four 3-monthly, three 4-monthly or two 6-monthly instalments. The first instalment serves as an advance on local expenditures, with successive instalments paid on presentation of satisfactory documentation of previous expenditures. This raises two practical issues: calibrating instalments and the nature of documentation.

Box 42: Pitfalls of local government plan and budget approval

Where higher authorities need to review and endorse LG budgets there is sometimes a tendency to go beyond a legitimate review of regulatory compliance (legalité) and question the budgeted priorities and activities themselves. There may also be a tendency for project teams and, in some cases, UNDP offices, to exercise the skills in which they were trained and attempt to do the same. However, it should be recognized that:

Legitimate concern for plan and budget quality is far better addressed by support over the course of the planning and budgeting process itself, and then by an ex post audit process, with appropriate sanctions if necessary;

- That aside, it is simply unfeasible for either central government or UNDP/project staff adequately to assess the substantive merits of the large volume of budget proposals being referred upwards, even if they were to spend all their time in the field.

See also Chapter 3.

a. **Calibrating instalments.** There is a trade-off to be resolved between ease of management and monitoring for the central authorities, and matching the cash flows of different LGs.

- The design strategy for many LDPs has been to release funds on the basis of flat percentage tranches (say, 30%-30%-40%), with release of the second and subsequent instalments being tied to satisfactory reporting on the use of previous tranches. This is undoubtedly simpler to handle at the centre, and therefore more likely to be mainstreamed as policy;
- However, it has become apparent that this system is often too rigid and does not reflect the real pattern of local expenditure. For example, due to seasonal/agricultural calendar constraints, the implementation timetable over the year may be such that expenditures need to be frontloaded in the first two quarters, in which case the tranches need to be released sooner. Therefore, it is preferable to ensure that local governments have prepared a realistic work plan and planned disbursement schedule along with the overall budget, and that fund releases (in two or more tranches) are tailored accordingly for each local government. However, this requires more work by local governments, and much more detailed monitoring of the different patterns of local government expenditure by central authorities, project teams and UNDP/UNCDF.

The trade-off will again require context-specific weighing of pros and cons. For example, where LGs have ready access to cash advances, perhaps through a well- functioning and 'liquid' caisse unique system (see further below on francophone public finance systems [1]), they may be able to smooth their cash flow so that release of flat percentage tranches is not a major handicap. However, this 'overdraft' option is likely to be unusual.

b. **Documentation and reporting.** A major source of blockage in several LDPs has been the lack of clarity regarding the financial reports required from LGs as a condition for the release of successive tranches. This is often compounded by the application of inappropriate UNDP NEX procedures, which can lead to an unnecessary degree of micro-management and second-guessing at the centre prior to release. This can have damaging consequences for LGs if it means that they are obliged to delay payments to contractors and postpone implementation schedules. Several lessons have been learned here:

- There should be clear upfront agreement on the kinds of reports to be submitted, and clear briefing and channels of communication for personnel involved in LGs, central government and UNDP offices;
- Where possible given the national context, the emphasis throughout should be on *ex post* controls and audits rather than *ex ante* controls.

2. Control and Auding of LG Use of Funds

i. Clarification

This is an area where LDP experience is still very limited. First, it may be useful to clarify what is involved in control and auditing.

Internal control and audit. These are more routine control exercises undertaken within LG and/or the deconcentrated administration. In some countries, large LGs usually employ their own internal audit staff (districts in Tanzania and Uganda, for example), to ensure ex ante verification and control of payments. In other countries, control, inspection and audit of lower-level LGs is usually undertaken by a deconcentrated Ministry of Finance or other central government official.

External audit. This is an independent ex-post verification of the quality of LG financial management in its totality, usually undertaken on an annual basis by a centrally appointed officer, team or private firm, reporting to a national audit agency that is usually separate from mainstream Ministry of Finance or other central government departments.

This notion of external audit is not recognized everywhere. For example, where the government set-up derives from French (or similar Napoleonic) traditions, financial control is usually a matter of internal inspection and control by local Finance and Treasury officials, through the ordonnateur mechanism, with more periodic controls by the Cours des Comptes (see also Section 3). Similarly, in countries where government derives from socialist tradition, more internal and ex ante controls tend to be the norm.

Therefore, the discussion below applies only to those countries with established procedures and precedents for LG ex post external audit as described above.

ii. The challenges: limited national external audit capacities

Many, but not all, countries (see below) have a central office or agency such as the Auditor-General's office, which is responsible for the external audit of all government finances, both central and local. Serious capacity problems are endemic among these agencies:

a. Typically, such agencies are themselves severely understaffed, overstretched and barely able to keep up with external audit of central ministries, let alone of local governments;

b. Although it is usually possible in principle, the scope for contracting external audits of LGs to private firms is frequently limited by the dearth of private sector capacity in the field of public sector and LG audit;

c. Bottlenecks invariably occur at the National Audit Agency, which has to review and approve any audits commissioned from the private sector on its behalf;

d. The foregoing problems are often compounded by a lack of clear or appropriate Government guidelines and standards for LG audit.

Consequently, audit reports on LGs are usually years behind and often quite superficial, while follow-up by LGs on irregularities may not be properly monitored. This situation tends to undermine the financial accountability of LGs, foster widespread suspicion of LG malfeasance and encourage the tendency for time-consuming and intrusive ex ante controls instead.

Obviously, these problems are likely to be exacerbated by the process of decentralization, which increases the number of LG units to be audited and thus magnifies the audit workload.

iii. LDP strategy

In all LDPs where the performance-linked funding mechanism is established, minimum conditions of access to funds stipulate that past audits have to be up to date and irregularities addressed. This spurs LGs and deconcentrated authorities to ensure that any audit backlog is dealt with.

In LDPs where external audits are more actively promoted, the strategy is as follows:

a. Private firms are commissioned to carry out audits on behalf of and under contract to the National Audit Agency;

b. In project areas with large numbers of LGs to audit, as in Uganda, coverage is limited to a random sample of LGs each year.

iv. Practical issues

Commissioning an external audit raises three types of practical issues:

a. In some instances, a generic agreement to undertake an audit has been interpreted locally as a 'project audit' along UNDP NEX guidelines, focusing on the project team, project procurement, etc., and not on the financial management of LGs themselves;

b. In other instances the audit exercise has been limited to examining only LG management of funds provided by the LDP, and not the totality of LG finances. Such a partial exercise is of relatively little value as a tool to promote LG accountability and institutional development and, given the fungibility of LG financial resources, is not necessarily very revealing;

c. In order to be useful, audits need to focus on the full range of LG financial management activities and funds. This makes them a costly exercise, which LDP budgets tend to either ignore or under-fund.

3. A Postscript on Single Treasury Systems

i. Single Treasury (unicité de caisse)

The public financial systems of the majority of francophone African states (and countries such as Laos) operate on the basis of the unicité de caisse principle, whereby all public sector finance (whether central or local) is handled by a single national Treasury. Local government authorities have their own budgets and budgetary autonomy, but they cannot and do not directly manage their own financial resources.

At the heart of the francophone financial system is the distinction between the ordonnateur (authorizing officer) who authorises payment, and the comptable (treasury official) who actually makes payments on the basis of prior authorization, in accordance with state regulations regarding disbursement. Thus, the mayors of Malian communes and presidents of Senegalese communautés rurales do not sign cheques, but merely authorize payment of contractors or service providers; actual payment is always made by the local Treasury office, which effectively manages collectivity sub-accounts as part of its overall public sector portfolio.

This implies that LDPs in such countries must transfer to funds to national Treasury offices rather than to local accounts, in order to comply with public finance regulations.

ii. Difficulties

There are a number of potential problems with this system of disbursement:

a. Transaction costs for contractors and service providers may often be substantial. Not only do they have to obtain payment certificates from locally elected officials, but they must then negotiate payment with local Treasury branches, which are often based at a higher administrative level. This can be particularly troublesome if Treasury officials refuse to make payments due to procedural errors on the part of elected ordonnateurs, forcing contractors to go backwards and forwards between the ordonnateur and the Treasury offices;

b. According to the principle of unicité de caisse, all public finance is considered to be unified, meaning that much hinges on the overall liquidity of the national State Treasury, which can vary greatly between LDCs. On the positive side, as in Mali, it can provide short-term liquidity or an overdraft facility. On the negative side, as in other countries, it may trigger liquidity crises for local collectivities, particularly when Treasury branches are under pressure to meet other needs such as the monthly salaries of civil servants;

c. Treasury branches in remote areas with underdeveloped or non-existent banking services have to operate on the basis of cash advances made by higher-level Treasury offices. Senior Treasury officials are often understandably reluctant to advance large cash sums to lower-level branches located in remote rural areas, which can result in additional liquidity crises. It is not unusual for contractors to present their payment certificates to a local Treasury branch only to find that there is insufficient cash for payment – which is hardly an incentive for private sector contractors to interface with local government;

d. While it might be assumed that Treasury officials (who are usually relatively well trained and educated) will know how to manage municipal or commune accounts, the reality is often rather different, especially in countries embarking on new decentralization programmes (such as Mali). In such cases, local Treasury officials may only have had experience in managing central government or line ministry expenditure, which is generally limited to recurrent expenditure in rural and remote areas, and know little about capital expenditure procedures. This problem is easily overlooked, but should be factored in to LDP design through capacity building;

e. In the initial stages of any decentralization process, the shift away from the traditional centralization of disbursement procedures may create capacity-related problems, such as the sudden overload of Treasury branches. In 1999, for example, the Regional Treasury of Timbuktu in northern Mali managed the accounts of just one territorial collectivity, Timbuktu municipality. In 2000, following the first ever local elections for rural communes, it was managing over 50 territorial collectivity accounts, mostly made up of the new rural communes, but had seen no increase in staffing or resources;

f. It is also possible for the independent control function of local treasury officers to be undermined if they are subject to excessive influence by local political authorities (as is the case in Laos) and encouraged to effect expenditures for items not in line with approved budgets.

Clearly, such issues and difficulties need to be taken into account when designing and managing LDPs in countries with single treasury systems. To a large extent, LDPs in such countries will need to live with such constraints, but they can also factor them in to capacity building efforts (aimed at regional Treasury offices, for example).

iii. Advantages

Despite the above, the central treasury system does have several potentially important advantages:

a. By making the national Treasury responsible for managing all LG disbursements and revenues, the francophone system reduces the need for LGs to develop specific financial management capacities. This reduces the need for capacity building efforts in financial accounting at the local level, although it does not obviate the need to ensure that national Treasury offices are capable of handling LG finances;

b. In theory, the francophone system reduces the costs of auditing by limiting the number of accounting centres that need to be audited. However, this needs to be nuanced; it may be more (rather than less) difficult for LDPs to support audits of national Treasury offices rather than local government financial departments;

c. Where the national State Treasury enjoys a degree of liquidity (as noted above), this can ensure that local governments are not unfairly squeezed and are able to meet their own payment obligations for local personnel, etc.

Chapter 3: Local Public Investment Expenditure Management

About this chapter

This chapter identifies the lessons learned, and proposes principles, guidelines and examples of good and bad practice in the various stages of local public investment expenditure management. The chapter is divided into four parts, and is presented in the following order:

Part I provides the broader context of local planning within a PEM framework, and the importance and problems of promoting participation in this.

Part II situates the LDP planning support strategy within this broader context, and articulates a framework for addressing local government planning and budgeting. Special attention is paid to the often-neglected institutional dimension of the local planning and budgeting process, and to the areas where "institutional innovations" are needed and have been introduced. This is followed by a treatment of the annual planning process and its tie-in to the budgeting cycle, a break out of the key steps in this cycle, and then by a highlighting of some typical problems faced at each step, and illustration of some of the tools which LDPs have trialed to facilitate these steps to ensure consistency and transparency.

Part III then addresses issues in implementing plans and actually producing the infrastructure – again an area often neglected. It presents a framework for looking at implementation options, by detailing the various tasks to be undertaken and the roles to be played, by illustrating both the scope and the limits of involving the private sector and community groups; throughout, the typical difficulties encountered in poor rural areas are highlighted. A postscript provides a reminder of the points in this phase where corruption is possible.

Part IV looks at the issues in asset management or long term operation and maintenance of these investments. This again provides a framework for looking at O&M options – and for determining where and for what types of infrastructure community O&M is feasible and where, conversely, it is not and where this task must be left to government.

Part I. The Context: Local Public Expenditure Management, Planning and Participation

A. Local Public Expenditure Management (PEM)

1. Clarification: from planning to the emergence of PEM concerns

Until quite recently most discussion about the allocation of public resources for the delivery of public goods and services was equated with public planning, and poor delivery of these goods and services was thought to stem from poor planning. This concern was then widened to embrace the question of public budgeting or financial planning, since even the best plans are clearly of little use if they are not reflected in actual government budgets (which, it was realized belatedly, was all too often the case).

More recently still, it was recognized that even this broader focus on public budgeting was still too restrictive a framework, and that what is needed is an analytic lens that recognizes the entire cycle of activity from planning to budgeting, from budgeting to budget execution and procurement, from the initial investment in assets to longer-term asset management or operation and maintenance and, of course, financial accounting, control and reporting on the use of public funds through this cycle. Each of these steps in the broader cycle of public expenditure management[1] contains pitfalls and problem areas that can undermine the efficient, equitable and accountable delivery of public goods and services.

2. The importance of local public expenditure management

Decentralization reforms change the way in which a country's public sector expenditures are managed, by replacing a single (central) level of planning, budgeting and budget execution authority with a multi-level system that includes central, regional and local-level planning and budgeting authorities. These reforms have three major consequences:

(i) Institutional capacity for public expenditure management (PEM) needs to be developed at sub-national level, often in the framework of system-wide reforms of public finance management;

(ii) New mechanisms need to be developed to coordinate multiple and autonomous planning authorities, and replace the former hierarchical central-local relations with new 'contractual' rules for inter-governmental cooperation;

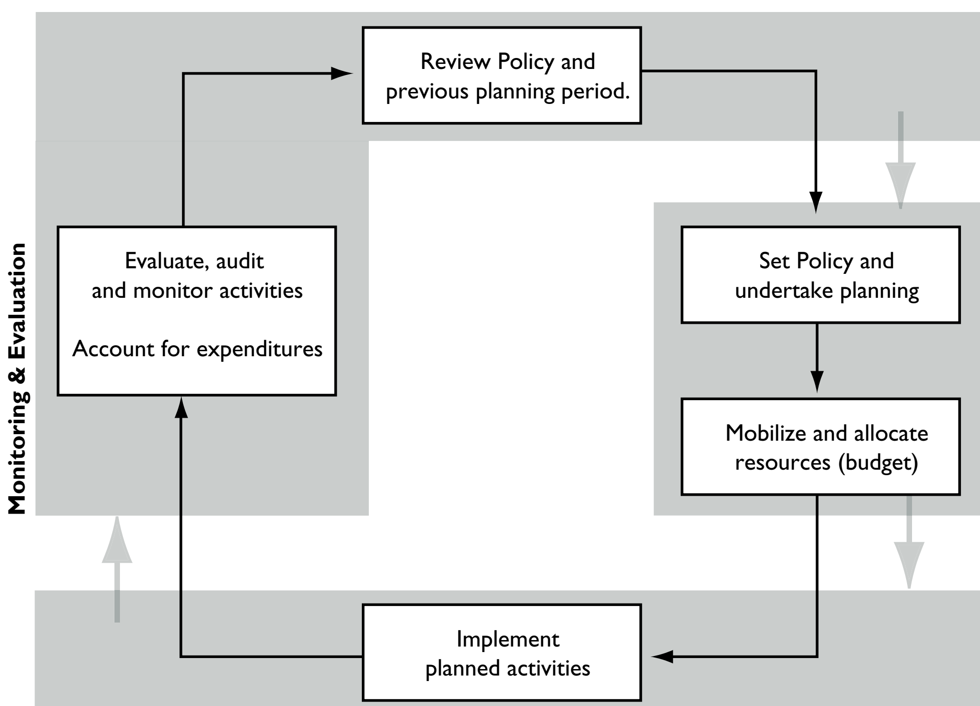
(iii) The operation of central agencies previously concerned with planning and financing of local development should be restructured to respond to the emergence of new local-level public sector planning/budgeting units.

Developing local-level capacity for public expenditure management is a key objective of UNCDF-supported LDPs. In fact, some degree of local PEM capacity is required for any substantial devolution or delegation of service delivery responsibilities and related transfers of fiscal resources.[2] Lack of such capacity is often considered as the major obstacle to the progress of decentralization reforms. Therefore, the central question that LDPs need to address is how to break the vicious circle of 'weak local capacity' – 'no real service delivery responsibilities' – 'no devolution of fiscal resources' (See also Chapter V).

As noted in Chapter 2, a key component of the LDP is the provision, via the LDF, of general-purpose grants that can be programmed and spent within the framework of an autonomous and statutory local planning, budgeting and implementation process. By providing local authorities with budget support rather than project financing, the LDF grants create an opportunity for LGs to 'learn by doing' the statutory PEM procedures through which local plans, programmes and budgets are prepared, implemented, monitored and evaluated. This allows a sustainable capacity building process to be put in motion, unlike the learning of multiple, ad hoc participatory planning procedures often forced upon communities and local authorities in order to access donor-supported mechanisms for local project financing.

Figure 5 summarizes the PEM cycle.[3] Local capacity should be built to handle each of its basic components: (i) strategic planning, (ii) investment programming, (iii) budgeting, (iv) implementation and procurement, (v) assets management, (vi) accounting and financial reporting (vii) internal controls and monitoring, (viii) evaluation and audit. Section 2 elaborates further on the planning instruments that operationalize the local PEM cycle, whose development is a primary focus of technical assistance under the UNCDF-supported LDP.

Figure 5: The Integrated Local Resource Management Cycle



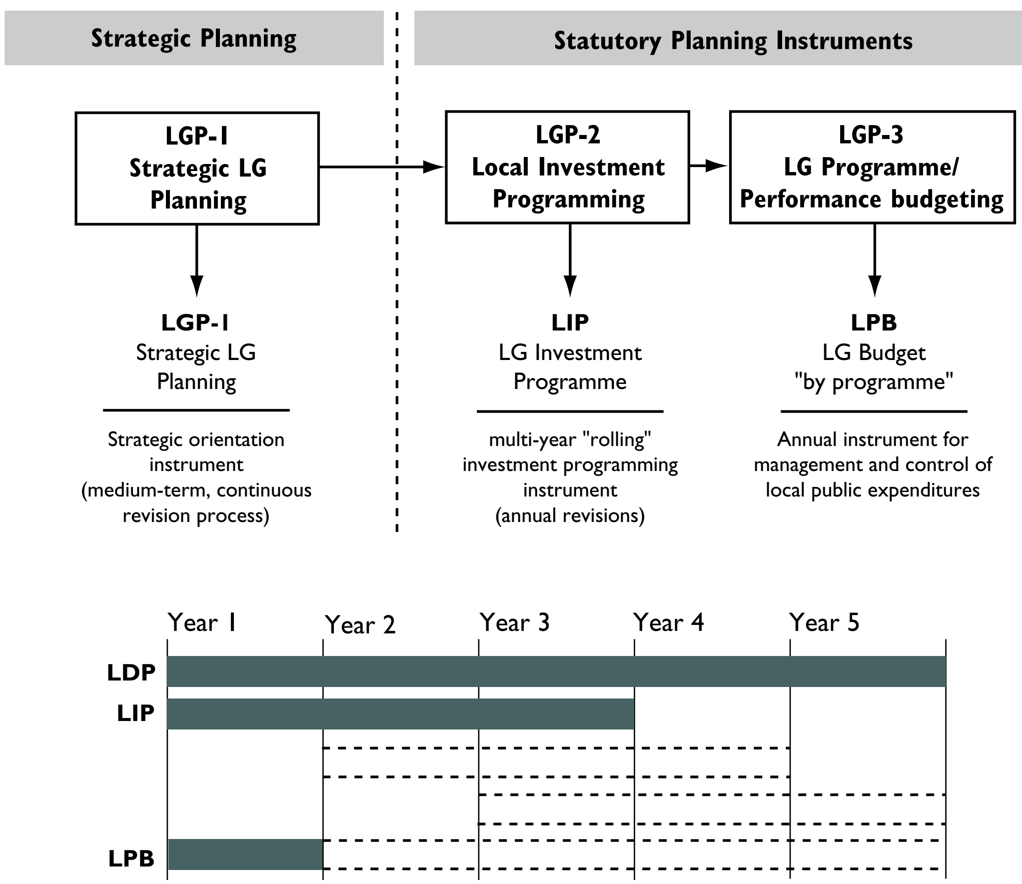
B. Overview of Planning Instruments within a PEM Framework

Within the PEM framework outlined above, local-level planning typically refers to several different sets of activities. International practice suggests that, ideally, there should be three distinct but closely related processes and instruments:

- Medium and long-range strategic planning (producing a Local Development Plan)
- Multi-annual ('rolling') local public investment programming (producing a Local Investment Programme)
- Annual, programme-based and performance-driven budgeting (producing a Local Government Budget).

Figure 6 summarizes the relationships between these instruments.

Figure 6: Local government planning: an overview



1. Local strategic planning

Local government strategic planning, as defined by best practices worldwide, should not merely consist of preparing a medium/long-term planning instrument or document. In fact, it refers more broadly to the planning practice of a strategic local authority. Such an authority does not claim the capacity or resources to address all community needs and challenges on its own. Instead, it is recognized as only one of many local actors sharing responsibility for promoting local development, protecting the environment and providing and producing local services through co-provision and co-production arrangements. Thus, the establishment of platforms for a structured dialogue between the local authority and other actors in the state, private and civil society sectors becomes an essential feature of local planning, as plans and strategies cannot be developed outside the multi-stakeholder negotiation process through which allocation and implementation decisions are eventually made. Strategic planning therefore refers to the process through which multiple stakeholders:

a. articulate and share a vision of local development;
b. identify local development objectives;
c. translate them into realistic targets;
d. agree on a timeframe for their achievement; and
e. share implementation responsibilities by entering into clear, monitorable mutual commitments.

A typical local-level strategic planning process may start with the creation of a multi-stakeholder planning platform including a range of public, private and community organizations (see Box 46), and end with the approval of a local development plan that includes (i) specific projects/actions agreed with, and to be financed and implemented by, central government agencies, commercial firms and non-profit/community organizations; (ii) identification of strategic/programmatic lines of action for the local authority and their translation into specific annual and multi-annual programme targets. The latter serve the purpose of structuring the local authority's corporate activity and administrative organization around specific programmes, and informing both the statutory multi-year investment programming and annual budgeting processes (see following sections for more detail).

2. Local investment programming

Local government investment programming is meant to produce a statutory multi-year, rolling local investment programme (LIP), typically covering three or four years. This should cover all projects under local government ownership (including community or other local bodies delegated by local government), to ensure consistency with an LG asset-registration and management system and fuller appreciation of the recurrent financing requirements for the operation and maintenance of such assets.

All projects included in the LIP should have been submitted to a simplified but rigorous feasibility assessment, which should allow for a broad assessment of their costs

Box 43: Nicaragua: local development planning institutions

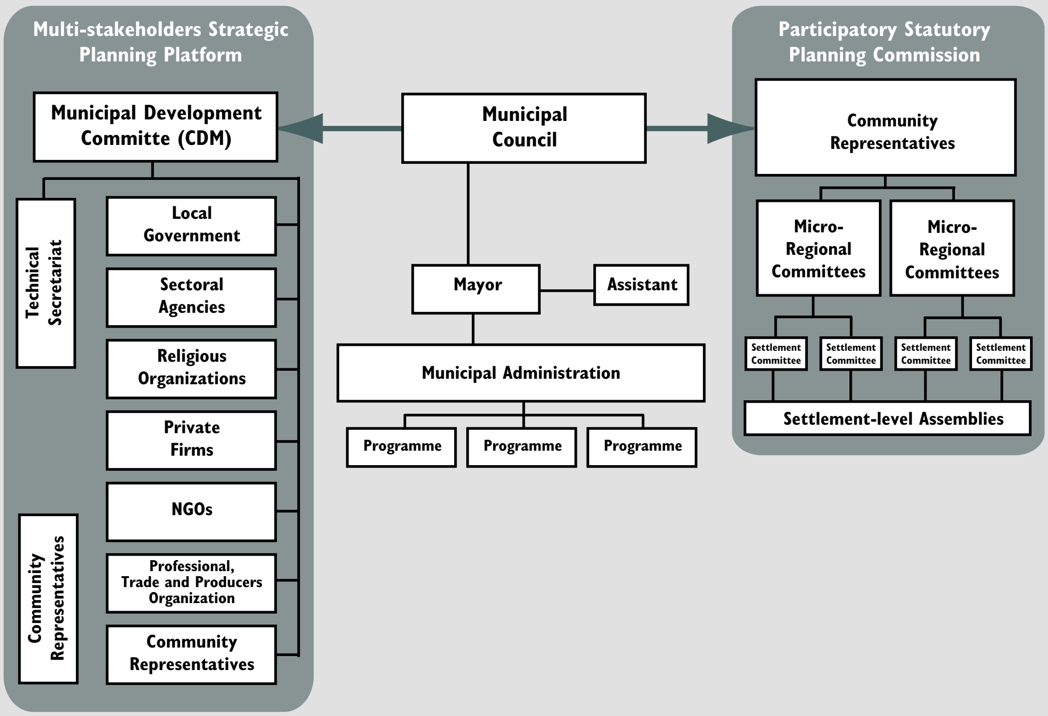
In 2001, in an effort to regulate and support municipal development planning in Nicaragua, the Nicaraguan Institute of Municipal Development (INIFOM) proposed that local development planning tasks be assigned as follows:

(i) **The municipal council:** By law, this is the local 'planning authority'. It is vested with, and cannot re-assign or delegate, the prerogative and responsibility to prepare, discuss, approve and give force of law (through municipal ordinances) to all instruments of municipal planning (plans, programmes and budgets). Furthermore, under the law, the council is given both the obligation to involve citizens in the discussion and approval of such instruments (e.g. mandatory use of Cabildos), as well as the ability to support and create new structures for popular participation in the municipal planning process. Two potential structures for civil society and community participation in local-level planning are the municipal development committee and the municipal planning commission. They respectively relate to the strategic and statutory planning exercises described below.

(ii) **The municipal development committee (CDM):** A policy development and advisory body, the CDM is the essential platform for municipal strategic planning exercises. Through it the municipality should engage multiple stakeholders from civil society, the private sector and the State, in order to :(a) define strategic municipal development goals and intermediate targets, and (b) pursue them through multi-actor cooperative agreements and mutually binding contractual action plans. The CDM is chaired by the mayor, and open to a wide range of representatives of social/institutional actors in the locality, including private sector firms, producer, trader and professional organizations, churches, non-governmental organizations and community representatives (see point below). It should be supported by a technical secretariat, in most cases, but not necessarily always, led by the municipal planning officer or technician.

The municipal planning commission (COPLAM). This is the key instrument enabling the municipality to elicit and structure citizen participation in its statutory planning exercises for local, multi-year investment programming and annual budgeting. It would be mainly responsible for drafting and recommending to the council the municipal investment programme, reviewing the draft budget submitted by the mayor and recommending its approval or modification to the council. COPLAM would complement the political representation of the municipal council with a form of community-based representation. Through it, local communities could be involved in all stages of the municipal planning process, from problem/project identification at sub-municipal level (barrios, comarcas and 'micro-regions') to programme selection and resource allocation at municipal level. Chaired by the mayor, and with technical support/facilitation from municipal planning staff, COPLAM would include councillors and senior municipal staff as well as an appropriate number of community leaders/representatives. The latter would be at the apex of a system for community-based participation/representation, which would start with popular assemblies at settlement-level (comarcas and barrios), and be articulated, as necessary, in a series of settlement (and multiple settlement or 'micro-regional') representative committees.

Institutional Framework of Municipal Planning



and benefits, and definition of a tentative schedule for their implementation. The LIP should also contain a clear financing strategy, prepared once a cycle of identification and negotiation of external resources has been completed or is at least well advanced. The LIP should then differentiate between those projects whose financing is confirmed and reflected in the budget, and those whose financing is still under negotiation, or which for some reason cannot yet be reflected in the budget.

A typical investment programming process should start with the participatory identification of community projects at settlement level, as well as projects of interest to the wider local public under the different development and service programmes within the local administration.

A key issue here is often how to 'mainstream' the participatory planning processes and techniques recently introduced by many central and external agencies financing local development.

Given the need to ration scarce public resources, project selection (as distinct from project identification) is an equally key step in the investment programming process. This step needs to be properly structured and facilitated to make it more transparent, more participatory and better informed. Section B of this chapter considers this step in more detail.

Broad-based, participatory planning institutions should be developed to select projects and recommend a draft LIP to the local council (see Box 46 above on Nicaragua). Local administration staff can facilitate decision-making by such participatory institutions, by providing background information on the local strategic planning objectives and related annual and multi-annual targets for local authority actions, using appropriate techniques to assist decision-making (criteria weighting, project ranking, etc.). Finally, it is important to stress that the whole project selection exercise, which is central to LIP preparation, should be made meaningful by the availability of a realistic and locally programmable budget ceiling. Such programmable resources would first and foremost come from municipal own-source revenue and general-purpose transfers, but could also include purpose-specific planning ceilings or matching grants made available by national agencies and programmes.

3. Local government annual planning and budgeting

Because many countries lack comprehensive local-level planning regulations, the only statutory planning instrument required by law is often local government annual planning and budgeting.

In such cases, the main challenge is to see budgeting as one component in a multi-instrument local planning procedure within the broader PEM framework, rather than simply as a tool for controlling expenditure.

To this end, 'programme' and 'performance' budget formats are increasingly adopted in place of the more common input-oriented 'line-item' format. Such result-oriented formats are meant to allow for a more direct and transparent linkage between the annual budgetary decisions of the local council and both the strategic objectives and targets of the local development plan and the recurrent expenditure implications of the local investment programme. Importantly, they are also meant to increase the transparency of the budget document and facilitate participatory approaches to its preparation.

A common issue faced in the transition to results-oriented and transparent budgets is the inconsistency between the need to use programmatic categories of 'administrative' and 'development' expenditures and the persistence of the traditional budgetary classification of 'recurrent' and 'capital' expenditures. Local authorities would indeed benefit from clarity on these issues, allowing 'development' expenditures to cover both 'capital' and 'recurrent' costs, and providing the often critical flexibility to address the maintenance and operation costs associated with infrastructure provision, as well as the management and technical service costs associated with the preparation and implementation of such infrastructure projects. This issue is also addressed in Chapter II.

C. Promoting Participation in Local PEM: General Lessons

1. Rationale and LDP strategy

A final general remark here concerns participation, a much over-used word. Promoting

Box 44: A proposed budgetary classification of local expenditures from Cambodia

A matrix classification of expenditures was proposed in Cambodia to guide commune councils in the budgeting of fiscal transfers earmarked for either 'administrative' or 'development' expenditures. It introduces some additional requirements in the process of local-level budgeting, as commune councils will need to convert the general administration and local development transfers into contributions to recurrent and capital expenditures in their budgets. In this process, councils are also expected to take account of any mandatory administrative or development expenditures that future regulations may assign to them, as well as any minimum or maximum requirements with respect to the share of transfers that they may use for recurrent and capital expenditures.

	Recurrent expenditures	**Capital expenditures**
Administrative expenditures	• Allowances to councillors • Local staff salaries and other personnel expenses • Rental of office premises • Routine repair and maintenance of administrative facilities • Utility charges • Fuel, lubricants and vehicle maintenance • Other consumables and miscellaneous	• Purchase of council premises • Major repair and maintenance works on administrative facilities • Furniture and office equipment for council or administration facilities • Purchase of vehicles
Development expenditures	• Personnel and other recurrent costs associated with the operation of local infrastructure and delivery of related services • Support to community development programmes managed by local NGOs and community-based organizations, including education and information campaigns, environmental protection and natural resource management, and other programmes impacting on the welfare of the local population • Routine maintenance of local economic and social infrastructure	The survey, design, construction, repair and maintenance of: • Roads, bridges • Markets • Educational and health care facilities, community centres • Irrigation networks and structures, agricultural storage facilities • Water and power supply • Other economic and social infrastructure

the greatest feasible involvement of local people in the planning, budgeting and management of local public expenditures is important for two reasons:

- Both as a goal in itself, as a means of empowerment (it is now accepted that exclusion from public and community affairs is in itself a deprivation of basic rights);
- As instrumental to the goal of better planning, by ensuring that the fullest possible range of local opinion and local knowledge informs the local decisions needed to deliver the expected allocative-efficiency benefits of decentralization.

Broadly speaking, LDPs aim to achieve this in two ways by:

a. Promoting public participation in planning and budgeting. By deliberately providing for pro-active and public inputs into the local planning process: that is, offering citizens as many opportunities as possible to voice their opinions in the identification of problems, needs and their appropriate solution, etc.

b. Promoting the role of representative bodies. By maximizing the extent to which final decisions about local development are made by representative bodies (councils, committees, assemblies, etc.), thereby ensuring as much public participation as possible in the formal decision-making process. This is of course at the heart of the LDP rationale for promoting the role of local representative government. Where the legal framework explicitly allows for this, LDPs seek to foster active and informed representation; where the legal framework is less explicit, LDPs try to develop arrangements for ensuring that representational bodies assume as many responsibilities as possible.

LDP experience suggests that participation is not without its costs, difficulties and limitations.

Box 45: Is the glass half empty or half full?

Views on the effectiveness of LDP efforts in promoting participation in local planning tend to fall into one of two opposing camps:

- Some commentators take LDPs to task for the fact that only a fraction of the local public is involved, and that women and the poor in particular are often under-represented at local planning meetings. The implicit yardstick used by these reviewers is an ideal of full local public involvement.
- Others are more positive, highlighting the fact that LDPs typically do allow much greater involvement of the general public, including women and the poor, than is usually the case. The implicit yardstick here is the comparison with normal local government business, where public involvement is typically minimal or non-existent; also bearing in mind the constraints of financial and institutional sustainability, which limit the measures that can be introduced.

The simple lesson here is that discussions about the effectiveness of participation strategies need to be based on clear terms of comparison and recognition of the constraints.

2. Costs of promoting participation and representation

Although there can never be 'too much' participation, it can be very expensive in terms of time and resources: not only for the organizers, but also for the participants (a fact that is often neglected). This applies both to the processes of consulting with and listening to the general public, which can take a lot of time and require much effort, and to the more representational aspects of participation, such as funding local assembly meetings, bringing together local elected officials, paying attendance allowances, etc.

LDP experience suggests that it is also much more costly and difficult to promote participation in rural areas than in urban areas. There are various reasons for this:

a. Typically sparse and isolated rural settlements mean that travel and communication costs are much greater than in towns, and that preparatory channelling of information to potential participants is much more difficult;

b. Greater literacy and awareness problems in rural areas require special measures to train, support and facilitate processes;

c. The organizational resources (NGOs, civil society groups, trained government staff) needed for this support are typically much thinner on the ground in rural areas than in towns, meaning that support agencies or personnel may have to be expressly brought in;

d. The intended participants, particularly poor rural people and women, are often simply much busier with basic livelihood and survival activities in the field and at home than urban residents.

These sorts of considerations mean that many of the oft-cited best practices in participation (such as the participatory budgeting experiments in Brazil) are not directly transferable to most rural areas.

One of the major challenges facing any LDP is finding the right balance – although it is probably easier to do this at local government level than at other levels. It is often difficult to achieve even a degree of genuine participation at line ministry level, while abundant resources at NGO level may frequently lead to unsustainably high levels of participation.

3. Bias and conflicts of interest

Finally, there are also inherent difficulties in creating institutional space where local people can come together and influence local planning and decision-making:

a. Greater public participation does not guarantee a greater voice for the poor. These types of meeting tend to be dominated by a few participants: the more articulate, confident and educated. This often works against the interests of poor and marginal groups, who may anyway be too busy earning their livelihoods to attend such meetings. To counteract this trend great care needs to be taken in setting up procedures, training facilitators, etc.;

b. Increased public participation means that more interests have to be more carefully reconciled. The broader range of proposals and priorities elicited by public participation can complicate local planning in several ways:

- They require careful use of more 'technical' procedures and techniques to allow transparent comparison and ranking of the different, and often very disparate proposals generated, in order to maintain the legitimacy of the process;
- When consultation procedures are fair and open, they may also encourage a consensual bias towards broader 'community interests' and away from support for proposals benefiting a smaller sub-section of the community, which may sometimes conflict with attempts to reduce poverty among specific groups.

iv. Need for deliberate, specific and 'simplistic' provisions

Partly as a consequence of these considerations, LDP experience suggests that quite deliberate and specific provisions are needed to translate participation goals into results. At times these provisions may run counter to the instincts and preferences of professionals working on the LDP.

Box 46: Introducing participation - some very basic lessons

- Participation doesn't just happen because it is included as a project goal or figures in the project document: it requires the introduction of specific procedures and measures;
- Participatory planning guidelines and procedures cannot automatically be imported or transposed from elsewhere. Although there are generic elements to participatory processes, it is essential that a home-grown system is developed and fully established in the country concerned. This takes time, consultation, iteration and revision based on experience. Initial procedures should be viewed as drafts for tentative use over at least one or two cycles before finalization;
- The importance of language and culture should be recognized and respected. In Malawi, the Chichewa word for participation, tangata, means exploitation, reflecting years of abuse under the Banda regime. Similarly, many government officials in Ethiopia still equate participation with 'voluntary labour' on roads or soil conservation works;
- Most people at all levels require some training in participatory techniques. Training should be practical, and preferably held at the lower local government level;
- Guidelines should be simple, not wordy, pleasing to the eye, and leave plenty of room for people to take notes or make the manual their own. The theory can be presented in an appendix, the introduction or even in a separate document, and simple pictures or diagrams are always useful, even if technicians think they are 'unprofessional'.

Part II. The Local Planning Process

A. Overview and Clarification

This section sets out a framework for developing a local participatory planning process at local government level. It aims to establish a set of routine and replicable procedures and capacities within local government and other local organizations to ensure transparent, inclusive, efficient and equitable decision-making regarding the allocation of local public resources.

In designing an LPP to meet this goal there are several sets of issues to be addressed, which can be grouped under the following headings:

- The legal and institutional framework for the LPP;
- Strategic or medium-term planning;
- The annual LPP steps and activities, and their calendar timing.

1. Characterizing the local planning process (LPP)

The terms “local planning” and “participatory planning” are frequently used by development agencies and in development literature. The fact that they can be used to mean quite different things often causes misunderstanding and unnecessary controversy. At least three different ‘traditions’ can be identified here:

- Some people still equate planning with the top-down technocratic process of data collection, expert identification of needs, weighing the costs/benefits of options, fixing quantified targets, determining critical paths, and so on;
- Somewhat in reaction to this, others have recently come to equate participatory planning with expressly non-technocratic PRA techniques, or other methods of directly eliciting community views, needs or proposals;
- Others equate planning with a detailed analytical and long-term visionary exercise, whose aim is to elicit long-term local development goals and strategies that may be carried out at community level, within an administrative unit or for an entire agro-economic zone or urban-rural economic basin.

Against this background of often differing views it is important to provide an overall characterization of the type of local planning process (LPP) that LDPs aim to promote.

2. Putting the LPP into the wider context of planning instruments

In order to locate the LPP promoted by UNCDF it is important to distinguish between the different types of local planning instrument shown in Box 48, each of which has its own objectives and time frame.

B. The Legal and Institutional Framework for LPPs

The starting point in designing an LPP is the legal, regulatory and institutional framework that governs local government planning and budgeting.

Box 47: Overview of the LPP - what it is and what it is not

The LPP aims to establish institutional arrangements, procedures and tools that:

- Encourage community expression of needs and priorities (it is not a top-down exercise);
- Are undertaken on a regular annual or multi-annual basis (it is not a once-and-for-all exercise). See next section for an overview of the different types of regular planning, programming and budgeting exercise;
- Are sustainable and replicable, and thus consistent with likely medium- to long-term capacity (therefore LPPs may not always use the most exhaustive consultative or diagnostic techniques or the latest information technology and tools, which have little chance of being used without excessive external support);
- Are undertaken within a territorial area of local government jurisdiction (not within an area defined on purely technical grounds, e.g. agro-ecological grounds);
- Allow as far as possible for transparent 'techno-rational' appraisal and prioritizing of expressed needs and priorities based on pre-established rules (rather than purely 'political' grounds, but recognizing that the latter are also important and legitimate);
- Result in an investment plan approved by the statutory local government body (rather than by a project committee or similar parallel body);
- Provide direct linkage between this planning process and the statutory annual local government budgeting process (rather than being independent from it);
- Are twinned with a simulated block grant funding mechanism providing a hard budget constraint (rather than being undertaken with no certainty of funds available); see Chapter 2.
- Aim to shape the allocation of all resources available to local government (rather than only LDP block grant allocations).

1. Legal and regulatory provisions

The local government legislation of most countries makes some reference to the role and mandate of LGs in the planning, budgeting and management of public resources.

With the exception of Nepal, the example given in Box 49 suggest that these legal provisions are typically broad and general, and provide little guidance on either the content, level of detail or structure of these plans or budgets, or on the process used to prepare them. However, they do provide an essential starting point, and set the legal parameters within which the LPP must be framed and developed.

In determining these provisions it is also important to identify issues for later policy impact, highlighting aspects of the legislation or regulations that may be unclear, unhelpful, inadequate or contradictory, and which the LDP should aim to help reform.

Box 48: Typical Local Government Planning Instruments

Periodic strategic or vision planning: Not always mandatory, this exercise is usually conducted every 3-5 years, depending on the size and type of local government. It aims to provide both a database and a strategic framework in order to address underlying development problems or exploit development potential, and will be reflected in a fairly detailed planning document that includes basic socio-economic data on the area.

Multi-year investment programming: Again, not always mandatory, this is a multi-year exercise, translating strategic plan ideas into specific costed investments, usually managed on a rolling two-, three- or five-year basis. It may be undertaken within the strategic or vision planning exercise.

Annual planning and budgeting: This exercise is always a key mandated function of local government, with specified annual deadlines. It aims to estimate budgetary revenues and identify priority investment and recurrent expenditures within the framework of the strategic plan and rolling investment programme.

How does the local planning process (LPP) fit in?

The main focus of the LPP is to support the strategic and annual planning and budgeting processes, by:

- Opening up the process to community input and oversight;
- Encouraging planning decisions at the lowest institutional level feasible;
- Encouraging a consistent poverty and development focus;
- Promoting a more transparent and accountable process for prioritizing investment expenditures, within clear and known budgetary constraints;
- Ensuring that planning decisions are reflected in the budget.

In some cases LDPs also provide support to, or incentives for, strategic planning and investment programming, particularly when these are provided for in LG regulations or legislation (as in Nepal, Mali, Senegal). Under such circumstances, LDPs usually aim to make the strategic or periodic planning process as inclusive as possible. Where such strategic or medium-term plans are formulated by local governments, the annual LPP needs to be consistent with them.

2. Identifying or creating various planning bodies

Here the aim is to identify local representative institutions and other bodies that are to manage key stages or functions of the LPP cycle (as detailed below under III.B.3), which will identify needs, formulate, screen and prioritize proposals, make final approval of plans and integrate these within the local government budget.

In some cases these bodies have already been created by statute and their roles comprehensively detailed. For example, recent Cambodian legislation – drafted with UNCDF support – provides a relatively clear and complete institutional framework for the LPP (see Box 50).

Box 49: Examples of legal and regulatory planning provisions for local planning and budgeting

Senegal: The planning function of local authorities is spelled out in Article 198 of Law 96-06 (1996). Implementation decree No. 96-1133 specifies the planning roles of each level and type of local authority, giving very brief overall guidance on the process: "The rural council shall prepare the local development plan and advise on all development projects concerning the whole or part of the communauté rurale".[4]

Benin: Article 84 of Law 97-029 (1999) states that every commune should prepare a development plan, supplementing the broader mandate of Law 96-056 (1996), which specifies that the role of local authorities is to prepare and implement plans for local economic, social and cultural development. The guidance therein is also brief: "the commune shall formulate and adopt its development plan, ensuring that it is executed in accordance with national guidelines in order to improve the living conditions of the entire population".[5]

Malawi: Part VI, Article 51 of the Local Government Act (1998) makes no mention of planning as such, but simply stipulates that district assemblies " … shall, not later than ninety days before the commencement of the financial year next ensuing, prepare detailed estimates of its revenue and expenditure for such financial year, and shall submit such estimates to the Local Government Finance Committee […]."

Nepal: By contrast, Chapter 5 of the Local Self-Governance Act (1999) contains a series of very detailed Articles with quite extensive provisions for the preparation of district development plans and their constituent projects.

However, Cambodia is probably an exception. Typically, it is not fully or clearly stipulated 'who does what', and planning institutions frequently need to be created *ex novo*, or at least reformed. Therefore, this kind of institutional clarification should also be a goal for Policy Impact activities (see Chapter 1).

In identifying planning institutions two main types of institution emerge:

- Institutions at community or sub-local government level;
- Institutions at local government or local administration level.

i. Community or sub-local government planning institutions

These bodies are needed to represent and aggregate the views and priorities of the public and act as bridge to local government, thereby greatly reducing the transaction costs of participation. As discussed earlier in Chapters 1 and 3, these transaction costs may be particularly high in rural areas.

Legislation may often provide for formal representative bodies or committees below the level of local government (see Box 51). Clearly, where these bodies have some degree of local legitimacy they represent a major organizational resource for facilitating and institutionalizing broader community input, and thus have an important role to play in the LPP.

Box 50: Statutory local planning institutions in Cambodia

Commune Council: Approves the plan and investment programme

Commune Chief (the Executive): Prepares and submits the plan and investment programme to the council

Commune Planning and Budgeting Committee: Assists the Chief in conducting the planning process

Planning Forum: Consultative body allowing public participation in the LPP

Box 51: Examples of legally designated sub-local government or community institutions

Tanzania: village and ward development committees

Cambodia: village development committees

Uganda: village and parish councils

Mali: village or fraction councils

Nepal: ward development committees

Timor-Leste: suco councils

However, it is important to remember that even when they are in place, these institutions may not always be fully representative. In other cases there may simply be a vacuum, with no such formally designated bodies below local government level. In order to institutionalize LPP activities, institutional innovation and piloting may be required to constitute effective, representative institutions at the local level (see Box 53).

When devising institutional arrangements to bridge the gap between elected LGs and the public it is important to recognize a number of issues:

- The implications of different electoral arrangements (see also Chapter 1C):
- Where LG councillors are elected to represent specific territorial areas or wards (as in East and southern Africa or South Asia), it is important that the elected member for that area is associated with the community body, preferably as chairperson. This helps ensure a more organic link with local government, strengthens interaction between citizens and their representatives and also promotes downward accountability;
- Where LG councillors are elected on the basis of party lists through proportional representation (as is typical in francophone Africa and other countries influenced by continental European political models), there is usually no such formal area representation, and thus no obvious role for councillors on these community bodies. Nevertheless, the need for these community bodies is perhaps greater here,

in order to ensure more effective and geographically equitable representation of community interests;

- The importance of local traditional authorities. Where local chiefs or headmen are used to playing a key role in local affairs (as in many parts of Africa and South-East Asia), it will be necessary to find a way of involving them in community institutions in order to ensure their support, make use of their local authority and avoid their obstructing the functioning of these bodies. Successful integration of chiefs has been key to the success and acceptance of LDPs in countries such as Niger. By contrast, it has proved difficult adequately to involve chiefs in local government planning in Malawi, because the lack of congruence between areas under chiefly jurisdiction and the electoral wards of district councillors means that involving the former would undermine the latter (see Box 52);

- Certainty of funding. It is also important to bear in mind that the viability of these community planning institutions may be linked to the likelihood of access to funding. This point was raised by a recent evaluation exercise for the LDPs in Mali, which noted the risk of participation in community planning tailing off where there is no certainty of proposals being funded. This is an area where the lessons to be learned are still unclear. *See Chapter 2.C.1 for a discussion of the pros and cons of allocating block grant entitlements to community planning bodies.*

A final caveat. While the existence of intermediary community institutions is necessary for an inclusive, effective and replicable LPP, it is not sufficient to ensure that proposals and priorities from all sectors of the public are adequately fed into the LPP. Appropriate LPP procedures, facilitation, information dissemination and support are also required – a point that will be addressed further below in Chapter section 3.

ii. Local government planning bodies

Local government legislation will usually define the organic shape of the various local government institutions:

- Local government councils;
- Local government executive organs and staff;
- Local government sector committees, planning and finance committees and related bodies.

Box 52: Pitfalls to avoid: sidelining customary authorities

The World Bank Community Empowerment Project in Timor-Leste deliberately excluded Suco chiefs and other customary authorities from the village and sub-district planning committees, with the laudable aim of not overly-empowering them and thus pre-empting the composition of future local government. However, it was found that their exclusion greatly undermined the effectiveness of these committees, and made it hard to resolve the inevitable problems related to land allocation or mobilization of labour for scheme implementation – areas where customary chiefs retain undisputed authority.

Box 53: Examples of institutional innovation at sub-local government level

The electoral system for local government in Senegal and Mali does not automatically ensure representation for all communities under local government jurisdiction. In both countries, sub-communal planning committees have been established at village level in order to identify and then communicate development priorities to their LGs. In Timbuktu (Mali), this has taken the form of grassroots planning committees composed of village chiefs/leaders, women and young people, who are responsible for analysing community needs and then submitting prioritized proposals to the commune offices. In Senegal, this has led to the creation of village development committees with the same basic planning role and composition as their Malian counterparts, and inter-village committees responsible for examining village-level priorities and inter-village needs, which are then fed into the RC-level planning process. In both cases, the local planning process complements existing arrangements for representation in LG councils. In Senegal this innovation is now being passed into national legislation for wider adoption.

In Niger, two levels of community institution have been introduced. One is the village development committee (VDC), which consists of up to 8 members, including at least two women. Membership is open to all adults, although there is a literacy qualification for the key role of VDC Secretary General; and in recognition of the role of customary authorities, local chiefs are designated as honorary chairpersons of these committees. The VDCs are complemented by local development committees composed of delegates from all the VDCs in the commune, which act as an interface with the embryonic pre-commune council currently being piloted.

In Mozambique, district consultative councils (DCCs) were established to act as precursors of the future elected district councils. The DCCs provided a platform for participation in the planning process that had previously not existed, filling the institutional vacuum below the level of province. This innovation is also being widely replicated, although the government is still hesitant about establishing formal elected district councils.

In Bangladesh, the LDP has been seeking an appropriate institution to fill the vacuum below the level of union parishad. In the first trial, seven-member area development committees with diverse membership were created, chaired at area level by an elected member for that ward (an area comprises three wards, typically with a population of 10,000). As this was found to be too populous an area for effective community involvement in the LPP, ward development committees (WDCs) chaired by the elected ward member are now being trialled (wards typically have a population of around 3,500). The greater proximity of the lower-level body has encouraged more public involvement, particularly by women, who find it difficult to travel far from home. In the meantime legislation has been passed to create gram sarkars nationwide, into which these WDCs are now being assimilated.

Box 54: Typical planning roles of local government bodies

- Sector (education, heath, agriculture, etc.) committees may feed proposals into the LPP and advise on and appraise proposals emerging from community institutions;
- Planning and finance committees undertake review, vetting and final prioritizing of submissions, ensure that any recurrent budget commitments are made, and prepare a plan and budget;
- The executive body and then council undertake final review and approval of the proposed plan and budget, for formal adoption and submission for higher approval or endorsement.

These bodies should play a key role in managing the LPP, in the final appraisal and approval process for proposals emerging from prior participatory planning processes, and in linking these plans to both investment and recurrent budgets.

There may be cases where it is felt that existing local government bodies are inadequate and need reinforcement through institutional innovation. LDP experience indicates that there are various reasons for this:

- It may be felt to be that the elected council is insufficiently representative; its overall political legitimacy may be in some doubt, or it may not adequately represent the full range of interests of all citizens in the area. Such cases may require innovative supplementary arrangements, if only on a temporary basis;
- Specifically, a key issue here concerns the extent to which particular social categories are represented in local government planning bodies (especially women and other marginalized groups, such as low caste groups in South Asia). Affirmative action arrangements may be needed, although they may be constitutionally problematic (as in countries with a francophone republican tradition of *égalité* – see Chapter 1.C);
- Local government bodies may not have sufficient technical expertise available to enable them to make informed planning decisions. It may be necessary to make arrangements to bring additional expertise into local government bodies;
- It is often necessary to ensure sector representation in the planning process, particularly in countries where line ministry functions remain deconcentrated rather than accountable to local government (as in most francophone states). Without sector involvement, local planning may result in duplication, or community proposals may simply not be fed into sector planning decisions. Innovative coordination arrangements may then be needed.

In all cases the aim is also to test these innovations as policy models for wider adoption in-country, and to feed into the national legislative and regulatory framework.

iii. Responsibility for planning coordination and support

A final institutional issue concerns the actors responsible for on-the-ground planning

Box 55: Examples of institutional innovation by LDPs at local government level

Niger: Within the embryonic pilot 'pre-communes', the LDP has established committees to oversee the appraisal of micro-projects, tendering and procurement, monitoring and evaluation, and land tenure issues and food security. In order to ensure more effective support to pre-commune bodies, coordination and advisory bodies comprising local line department heads and NGOs have been trialled. It has proved difficult to make these operational, but once elected bodies are in place there may be more effective pressure from elected councillors for greater responsiveness and collaboration.

Guinea: The representative legitimacy of CRD councils is in serious doubt due to the fact that their electoral mandate has been continually extended without the benefit of fresh elections. In response to this, the LDP established community development committees to provide a more open and transparent supplementary planning forum at local government level.

Uganda: The sub-county council does not have adequate resources within its own staff to review, develop or appraise planning proposals. To tackle this problem in a manner consistent with the possibilities allowed in law, an investment planning committee was established to widen the pool of human resources, with members drawn from both council and civil society (local teachers, retired civil servants, etc.).

Bangladesh: Although the law makes provision for elected women members on union parishad councils, there is no clear role for them. The LDP has been supporting their involvement as advisors on the ward development committees, and as chairpersons and deputy chairpersons on the UP planning and sector committees.

Cambodia: In order to bridge the gap between communes and district line departments in the planning process, district integration workshops have been instituted, to facilitate integration of commune-level planning and planning by provincial line agencies, NGOs and donor project activities; and to negotiate and secure formal agreements with these various local agencies to support implementation of commune plans.

and its coordination and support. LDPs tackle this in various ways:

- In larger, higher-tier local governments (such as districts in Uganda or Malawi), planning officers or units are usually responsible for providing support and coordinating planning;
- In some smaller, lower-tier local governments (such as ADCs in Malawi, or communes in Viet Nam), planning support is provided by district-level teams made up of civil servants and local officials;
- In some cases of lower-tier local government (such as *communautés rurales* in Senegal or *communes* in Mali), LDPs have subsidized the use of consultants and NGOs for planning support.

Box 56: Building in more sustainable local planning support institutions

The Bangladesh LDP supported the introduction of teams of local planning facilitators. These six-person union facilitation teams composed of four local men and two local women with minimum high school education requirements were selected and trained in basic planning support skills, in order to facilitate planning by ward development committees. Training costs and daily remuneration of $ 3 are funded through a 5% withdrawal from the annual union parishad block grant.

However, such mechanisms are not guaranteed to deliver: the quality of support may not always be maintained, team members may opt out if other employment arises, and local governments may not always see fit to continue using them.

The last option is both the least sustainable in the medium- to long-term, and the least likely to be mainstreamed. For this reason, it should be avoided unless absolutely necessary (see Box 56).

C. Planning Roles in a Multi-Tier System

Almost every country has at least two or more tiers of local government or deconcentrated administration (see Box 57).

Here it is necessary to determine the planning competence of each level: which planning decisions can be made at the lower level, and which must be made at the higher level.

However, the underlying presumption of subsidiarity – to devolve as much planning approval authority to the lower level as possible – should be moderated by several factors:

- **Legal mandates.** Local government legislation will usually spell out the functions of each level. While this is a starting point, such mandates may often be of limited help, since they are typically:
  - Vague (for example, citing "primary education" without distinguishing the many different functions within this arena: school construction, rehabilitation and maintenance; procurement of furniture and books; teacher employment and teacher training, etc.);
  - Often inconsistent (overlapping with the legal mandates of line ministries or other local government levels),
  - Possibly inappropriate, decentralizing less than is desirable or more than is realistic.
- **Socio-economic externalities, 'spillovers, network effects, etc.** There are various factors which may argue for planning approval at a higher level:
- Where the potential direct or indirect beneficiaries of certain sorts of investment inhabit an area wider than the jurisdiction of the lower level; typically, beneficiaries

Box 57: Examples of multi-tier systems

- *Uganda*: five tiers of local council exist, although only districts (LC5) and sub-counties (LC3) are fully-fledged corporate local government bodies;
- *Ethiopia*: within each region there are zonal, woreda (district) and kebele (commune) levels;
- *Eritrea*: zoba (regional) level and the sub-zoba level;
- *Bangladesh*: upazila (sub-district) level and union level;
- *Mali*: region, cercle (district) and commune levels.

Box 58: Confusion over the planning capacities of lower-level local government

The devolution of planning functions to lower levels is often opposed on the grounds of lack of local capacity. This argument is frequently based on confusion between:

- Instances where lower-level local bodies cannot legitimately take final planning responsibility for certain investments because they fall outside their legitimate jurisdiction, for reasons discussed above; and
- Instances where they simply need technical support on design specifications, costing, construction standards or procurement, etc., to develop investments within their legitimate sphere of responsibility. Here it must be recognized that a local government may be entrusted with provision responsibility for a particular function (e.g. small-scale irrigation) without actually needing to possess the technical production capacity for this (having an irrigation engineer in its employ).

See also Chapter V on Capacity Building.

of investments in facilities at the primary level are more limited and local, while those at secondary level are wider and more diffuse;

- Where investments form part of an interdependent network with ramifications beyond the lower level (such as reticulated water supply or drainage systems, or a cold-chain system for vaccination);
- Where investments may adversely affect people living outside the lower-level jurisdiction (e.g. an irrigation system drawing water from a river, affecting those downstream).

- **Fiscal externalities: recurrent budget implications.** For investments whose operation and maintenance (see Chapter 3.D) would entail long-term recurrent budget expenditures or significant staff involvement for local government or administration at the higher level, final approval should be at that higher level.

The outcome of this analysis will be two or more lists or schedules of local investments, corresponding to each local government planning level. They can be categorized as:

- Community investments whose approval can be devolved to the most local level; *or*
- Other district (or public) investments which should be referred to the higher level for approval.

Table 16: Illustration of how planning responsibilities may be determined in a two-tier system

Types of Investment	Wider socio-economic externalities, spillovers, etc.	Fiscal externalities (i.e. budgetary implications for higher level)
Typical community investments Wells and boreholes Village tracks, trails, culverts Rehabilitation or furnishing of primary schools Rehabilitation or equipping of primary health units Small irrigation or catchment protection schemes Community grinding mills Community skill training schemes Group economic activities	Not usually – typically a very local set of beneficiaries	Not usually – typically entails no additional claim on (local) government budget or staff for O&M
Typical district (or public) investments		
Feeder and district roads	Likely	Likely
New primary schools or health units	Not usually	Likely
District hospitals	Likely	Likely
Secondary schools	Likely	Likely
School hostel facilities	Likely	Likely
Larger scale catchment or flood protection schemes	Likely	Not usually

N.B. This listing is only illustrative and should be reviewed for each country context, bearing in mind national legislation.

Failure to make this clear distinction at the outset, or making it on inappropriate grounds (for example, simply assigning investments below a certain ceiling to the lower level and larger investments to the higher level) can cause much confusion and may distort sound planning decisions.

Table 17: Illustration of the assignment of planning roles in Uganda

Investment project categories			
Character-istics	**Community investment project**	**Sub-county projects**	**District projects**
Examples of typical or possible projects	• Spring protection or well-digging; • School improvements (furniture, materials, upgrading of building, teachers' accommodation etc.); • Footpaths and other very minor improvements to roads or bridges; • Clonal coffee demonstration plot	• Boreholes • Improvements to health unit; • New nursery schools; • Upgrading of primary schools; • Culverts and community bridges; • Small extension programme for sub-county, e.g. para-vets, campaign on improved sanitation etc.	• Gravity flow scheme or dams; • New health units; • New feeder roads; • Services provided for several sub-counties (e.g. technical school, secondary schools); • Health, education, agriculture, etc. extension programmes covering more than one LLG; • Major rehabilitation of feeder roads,
Beneficiaries	Small and well defined user/beneficiary group (e.g. parents and students of a particular school)	Could be a small and well defined group of beneficiaries, but more likely to be a broader group (e.g. the entire population of the sub-county that may benefit from a health clinic)	Likely to be a broader group of beneficiaries (e.g. all those in the district that may benefit from a new feeder road)
Recurrent costs	No recurrent cost implications at sub-county level and above	Recurrent costs limited to sub-county level	Recurrent cost obligations at district level
Resource level	Does not require resources in excess of tender board threshold.	May or may not require tender board	May or may not require tender board
Prioritization of proposal	At parish level	At sub-county/division/ town council level	At district level
Approval for resources	At sub-county/division/ town council level	At sub-county/division/ town council level	At district level

Two related design issues also need to be borne in mind:

- Splitting the block grant pool allocated to different levels (see Chapter 2.C);
- Establishing eligible investment menus, which are discussed in more detail in Chapter 2.

Differentiated assignment of planning functions to LGs at the same level

In most countries the policy and legal framework for local government treats all authorities at the same level in a uniform manner: all have the same formal powers and functions. The main exception to this is the differentiation often made between the powers and functions of urban and rural authorities at the same level.

If permitted by the policy and legal framework, one project strategy or design option may be to allow for some differentiation between local authority planning functions, based on an agreed measure of capacity or performance. A two-track approach could be introduced whereby better performing authorities (Class A) are allowed to plan for a wider range of investment functions, while weaker authorities (Class B) can only plan for a more restricted range. To date, no such differentiation has been introduced into any LDP, although it is now reflected in the emerging policy and legal framework for local government in several LDCs (Cambodia, Nepal, Viet Nam).

Box 59: Pros and cons of differentiated assignment of planning functions

- **Pros:** can better match functions with capacities of local governments and build incentives for improved performance, encouraging a move from Class B to Class A;
- **Cons:** may conflict with uniform policy and legislation, and/or may be politically problematic; complicates central monitoring of local government.

D. The Local Planning and Budgeting Cycle: an Overview

1. The strategic planning framework

Although the core of any LPP is primarily concerned with the annual planning and budgeting cycle, in some cases LDPs also support more strategic or medium-term planning at both higher- and lower-tier levels. Such plans – which are often mandatory – provide local governments with an opportunity to establish a strategic framework within which annual plans and budgets can be drafted. In some countries, such as Uganda, these may in turn be partly derived from priorities expressed in the national medium-term expenditure framework.

Typically, strategic planning starts out with situational analysis, based on a socio-economic profile of the jurisdiction in question. This involves an initial phase of data collection and analysis. Analysis allows planners to identify strengths and weaknesses in the existing system of public goods and services and thus to identify priority areas for programming. It may also reveal spatial patterns in the incidence of poverty or in the public service system, which can translate into focused geographical programming.

Local government strategic plans are not usually drafted on the basis of a hard budget constraint, and for that reason are probably best limited to a broad statement of priority areas (both sectoral and geographical) for programming, rather than a more detailed listing of planned investments. As such, they can constitute guidelines that shape the priorities governing the annual planning process. However, it should be noted that in some countries (such as Viet Nam, where the 5-Year Plan embodies powerful political directives), these strategic plans can act as straitjackets rather than guidelines, and may undermine meaningful local participation.

Ideally, local government strategic planning should be as participatory as possible. However, there are likely to be significant costs entailed in using participatory methods. A more realistic option is for a specific task force to draft the strategic plan and have the draft widely circulated for comment, before a final draft is submitted to the relevant approval body (council, assembly, etc.).

2. The annual planning and budgeting cycle

i. Aims

Here the challenge is to determine a regular, calendar-bound cycle of activities linking the LPP to the annual budget process. This should:

- allow sufficient time for each step in the process;
- be consistent with statutory annual budget submission deadlines and the official local government fiscal cycle.

ii. The local government fiscal cycle and budget preparation deadlines

The aim is to ensure that the LPP dovetails with the local government budgeting process. Failure to ensure this will mean that plans remain wish-lists, which are separate from budgets and therefore cannot be implemented, or which can only be implemented through mechanisms parallel to statutory local government procedures, thereby undermining the accountability and transparency of local government.

Thus, the starting point is the statutory budget preparation deadline date at the outset of the local government fiscal year, which is usually defined either in legislation or by the regulatory framework. This is the date by which local governments should submit their projected annual revenue and expenditure to higher authority for approval (projections that are all too often not derived from an inclusive or transparent planning process) (see Box 60).

Since fiscal years typically run from January to December or July to June, budget deadlines usually fall in November-December or May-June of every year (the three-month advance period in Malawi is particularly long).

Therefore, the LPP steps need to be constructed backwards from this date.

Box 60: The local budget deadline in Malawi

Article 51 of the Local Government Act (1998) states that "The Assembly shall, not later than 90 days before commencement of the financial year [1st July], prepare detailed estimates of its revenue and expenditure for such financial year … and shall submit ... [them] … to the Local Government Finance Committee … "

In other words, budgets should be prepared by March 31st at the latest.

iii. Generic steps in the LPP

While there are great variations between them, certain key generic steps are common to most or all LPPs. They can be grouped as follows, although the sequencing will vary:

a. **Assessment of budgetary resources** whereby local government compiles its estimate of total revenues – from all sources - available for the next fiscal year. This should include estimates of both local revenues and, very importantly, fiscal transfers from central government. It is therefore essential that the announcement of the annual Indicative Planning Figure — or LDP block grant funding level – is timed to precede this step in the cycle (this is discussed further in Chapter 2 B);

b. **Preliminary review, analysis and strategic direction** whereby local government reviews past performance, formulates strategy and provides broad direction to local and community planning bodies, both on priorities consistent with the strategic plan and/or investment programme (if such have been prepared), and also on the process itself. This step may also include updating of databases (e.g. 'village books' in Uganda). This step is not included in all LDPs;

c. **Expression of needs, priorities and proposals** from the public to or through sub-local government or community bodies, and by local government sector committees and other bodies;

d. **Screening, development, costing and appraisal** of proposals by local government sector and planning bodies;

e. **Review, ranking and selection** of proposals by the local government planning/finance committee in the light of available budgetary resources; in some cases done together with a broader consultative body;

f. **Compilation of draft investment plan and budget** incorporating these investment proposals by planning/finance officers and local government planning/finance committee;

g. **Final approval of investment plan and investment and recurrent budget** by the statutory local government authority/authorities (executive, council);

h. **Endorsement** of budget by higher authority (governor, prefect, Ministry of Local Government), and release of funds;

i. **Implementation** of the investment plan (this is not strictly part of the LPP, and will be considered below in more detail in Part III of this chapter).

The following is a simple schematic presentation of the annual planning/budgeting cycle in the Bangladesh LDP (where the steps correspond to those outlined above):

Table 18: Annual planning/budgeting cycle in Bangladesh LDP (fiscal year: July-June)

Step	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
(a)				X								
(b)												
(c)												
(d)												
(e)												
(f)												
(g)						X						
(h)							X					
(i)												

Notes:

- Step numbers correspond to the generic activities outlined in the text above
- Most implementation work is actually undertaken between October and January (due to the agricultural calendar)

Within this broad framework the detailed activities and time required for each activity will vary, depending on the institutional and social context of each country, as well as the various constraints inherent in the national budgetary cycle. More detailed examples of LPPs are provided on the following pages.

E. Local Planning: Issues and Lessons

This section covers various local planning issues, lessons and tools derived from LDPs. For convenience, they are ordered within the framework of the nine generic LPP steps outlined above in Section 4.2.iii of this chapter.

1. Estimating budgetary resources

The timely announcement of the annual indicative planning figure or block grant is essential to this step. The exact timing varies considerably between LPPs, but what is critical is that this occurs as early as possible, and certainly prior to step (e), ranking and selection of investment proposals, in order to ensure that this latter exercise takes place with full knowledge of resources and resource limits. Otherwise, without the force of such a hard budget constraint, planning becomes a simple wish-list exercise. One of the inherent problems in many national centre-local fiscal transfer mechanisms is precisely this lack of synchronization. See also Chapter 2 B.

2. Preliminary analysis and strategic direction

The Box, *Strategic direction for annual planning*, provides some examples of this step, which is not fully included in all LDPs.

Table 19: Local Government Planning in Uganda (fiscal year July-June)

Timing	Steps
July	- Review functionality of technical planning committee (TPC)
August	- Disseminate planning information for parishes/wards
September	- Support to village/parish-level planning
October	- Situation analysis at lower local government (LLG) level - Discussion and prioritization of LLG challenges/obstacles and opportunities (LLG SWOT analysis) - LLG visioning and goal setting
November	- Identification of LLG investment priorities - Budget conference
December	- Forwarding projects for district/municipal consideration
January	- Development of project profiles
January/ February	- Review of project profiles by standing committees
February	- Compilation of draft comprehensive development plan
March	- Review of draft comprehensive plan by the Executive - Refinement of the draft comprehensive plan by the TPC
April	- Discussion and approval of the comprehensive plan by the council - Finalization of the comprehensive development plan - Submit approved comprehensive development plan to higher local government
May/June	- Final feedback to lower local councils (parish/wards and villages/cells).

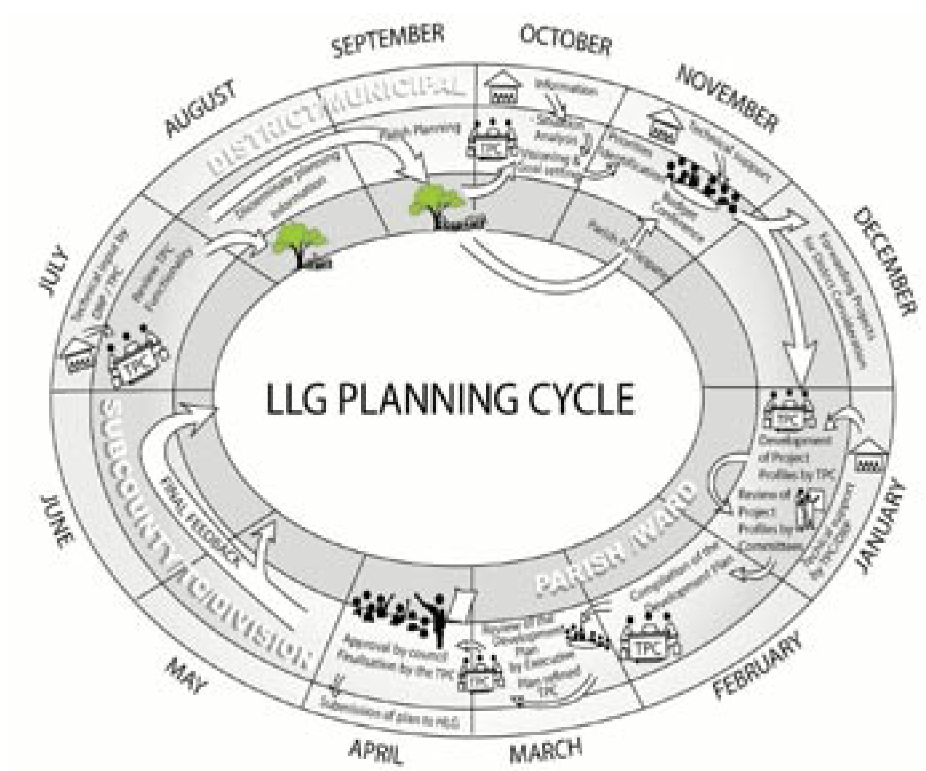


Figure 8: Annual Local Planning and Budgeting Cycle in Cambodia

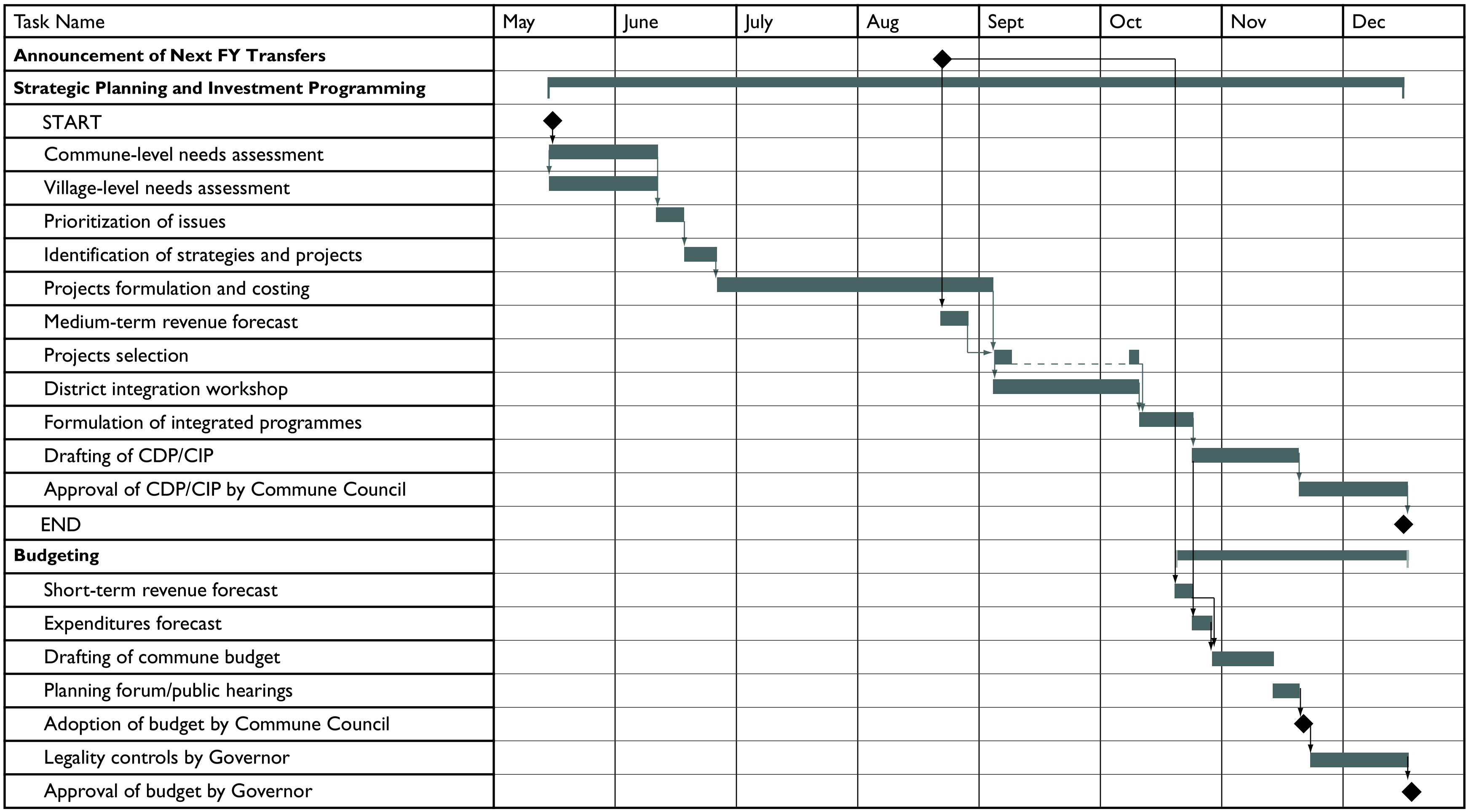


Table 20: Annual Planning and Budgeting Cycle, Anseba LDP, Eritrea

(fiscal year jan-dec)

	January	February	March	April	May	June	July	August	Sep	Oct	Nov	Dec
Regions, sub-regions and villages Implement	Start implementing the programme for this year, flowing from budget approval the previous December								1. Previous year's performance reported to villages and sub-regions. 2. Start community-based reviews arising from 1, as the foundation for next year's round of planning and project development (all culminating in 'raw' project definition in January)			
Plan	Stage 1: Village participat-ion and 'raw' project definition.	Stage 2: Sub-region confirmat-ion and initial 'practical' and budget screening	Stage 3: region approves proposals to procure technical inputs for initial design and screening	Stage 4: Region ensures project docs finalized as a basis for budgeting	Stage 5: Region finalises annual report, plan and budget; submits to Baito; on approval submits to MoLG	Stage 6: MoLG consoli-dates regional annual report(s) into MoLG budget submission to MoF	Info from the annual report dissemi-nated as a basis for reporting perform-ance at the village level	Negot-iation with Treasury on likely budget allocation for next year	Finalize service delivery, capacity building and capital investment projects		Submit work prog-ramme for next year	Plan for new work progr-amme
Review	Submit 4th quarterly progress report			Submit 1st quarterly progress report			Submit 2nd quarterly progress report		Submit 3rd quarterly progress report by end of October			

Strategic direction can be helpful in that:

- It provides central government and higher-tier local governments with the opportunity to spell out planning priorities – and thus to operationalize strategic plans. This in turn helps local government to make appropriate weightings when they compare proposals in different sectors (see also Chapter 3 B on ranking issues);
- In cases where lower-tier local governments submit project proposals for funding to higher-tier local governments (as in Nepal, where DDCs finance VDC projects), it provides the former with a better idea of the kinds of project that are more likely to be approved and funded.

However, strategic guidance and the issuing of planning guidelines can also be detrimental to local participatory planning, especially in countries where 'guidance' may be perceived as being highly prescriptive (as in Eritrea or Viet Nam), or where local authorities tend to be largely deconcentrated units and thus potentially more responsive to central or upper tier 'guidance', rather than to local priorities.

Box 61: Strategic direction for annual planning

In Uganda this is quite formalized. At the outset of the annual LPP, district and lower councils (sub-county and parish):

- Review annual planning circulars and guidelines issued by the higher level (MLG for districts, districts for lower councils), the IPFs available for all levels and the timetable for the process;
- Hold a planning/budget conference of council, planning committee members and other key stakeholders to identify priorities, strategic areas, etc., in line with the (multi-year) strategic development plan.

In Nepal (prior to suspension of local elected bodies due to the conflict) the process started with the announcement of national planning directives, which include approximate district development committee (DDC) budget estimates. Following this, DDCs are expected to review the planning directives, and then issue directives through plan formulation workshops to village development committees (VDCs) and local communities. This first step is supposed to take place over a one-month period (November/December).

VDCs then meet to consider planning guidelines and provide a rough orientation for their own plans. This step is followed by ward committee meetings, in which settlement- and ward-level priorities are discussed and analysed. Once the wards have set their priorities, the VDC meets to finalize its annual plan, deciding on priorities (from ward-level proposals), and determining which projects will be financed out of the VDC's own resources and which will be submitted to the DDC for funding.

3. Expression of needs, priorities and proposals

Aids for community problem analysis and ranking of priorities and proposals

Orthodox PRA approaches often provide for extensive use of diagnostic tools and exercises to map out local problems, potential and priorities. However, experience suggests that the whole 'PRA package' typically proposed by NGOs is often disproportionate.

- Local people are expected to spend a great deal of time in meetings, when the opportunity cost of time for the very poor is especially high;
- The facilitation costs entailed are too high to be replicated;
- It frequently results in expectations that are unlikely to be met;
- In terms of priorities identified, the outcome is often not significantly different from much shorter, simpler and more cost-effective exercises.

More cost-effective, minimalist exercises may simply involve:

Problem analysis

In countries where literacy rates are low, local problems can be analyzed using a variety of simple tools and methods:

- Focus group discussions to elicit the viewpoints of different social categories (e.g. women, the elderly, youth, men);
- Carrying out a simple 'census' of existing infrastructure and its history;
- Transect walks with community representatives to stimulate debate about local problems;
- Simplified problem trees, starting with locally perceived problems and trying to understand their root causes;
- Village mapping exercises, to stimulate debate and discussion about local problems.

Simple ranking tools

At the level of the community institution (village or ward committee, etc.), quite simple procedures can be used to ensure consistent and transparent prioritization of proposals emerging from the problem analysis. Again, such methods are well suited to areas with low literacy rates.

- **Simple preference ranking.** Participants may simply express ordinal preference for the proposals through a show of hands, marks on a board, cowrie shells on the ground, etc., which are then summed for all proposals;
- **Pairwise ranking.** This is a more sophisticated ranking exercise, which aims to better articulate comparative preferences and reduce the scope for manipulation by a few. Normally a group exercise, pair-ranking is simply a round robin tournament technique in which every item in a list is compared to every other item according to a single criterion, the final ranking emerging from a simple tally of the number of wins. This exercise also usually generates considerable further discussion of the relative merits of the proposals – a very useful exercise in itself.

Box 62: Beware of purely map-centred problem analysis

Evidence from Bangladesh suggests that map-based discussions may have led to a bias toward discussion of physical infrastructure-related issues, and away from issues without location-specific characteristics that may be of special interest to women (such as skills or public health-related problems).

Box 63: Avoiding manipulation of ranking exercises

With so much at stake for different sections of the local community, there is often pressure from local interests and lobbies to secure high ranking for their preferred proposals, whatever their objective merits.

There is no absolute safeguard against such 'manipulation', which is, after all, characteristic of all democratic forums everywhere. However, public information, clear procedural rules and good external facilitation (insofar as this can be resourced in a sustainable manner) do help to keep the playing field reasonably level.

Table 21: Pairwise Comparisons and Ranking

Project A - road access					
Project B - health post	B				
Project C - school	C	C			
Project D - market	A	B	C		
Project E - water supply	E	E	C	E	
	Project A - road access	Project B - health post	Project C - school	Project D - market	Project E - water supply
Number of times preferred	1	2	4	0	3
Thus Priority	4	3	1	5	2

Some practical issues

Experience from LDPs indicates that there are a number of important practical issues that need to be taken into account in the community consultation process:

- Communities need to be informed well in advance of the time and date of the planning session;
- Given that community consultations should take place in all communities within the local government jurisdiction, they need to be limited to a short period (one or two days), allowing local government facilitators to cover all villages within a reasonable amount of time and at a reasonable cost;

- Results from community consultation meetings need to be written up and filed for future reference.

Guidelines and modus operandi for community planning institutions

Clear, consistent guidance is needed for the various planning institutions at community level, for which there may be no clear legal or regulatory basis, with regard to:

- Defining purpose;
- Selecting or electing members (if these bodies are newly constituted without any basis in law or regulation);
- Determining modus operandi: when and where to meet, how business is to be conducted, how agreements are to be made, etc.;
- Explaining how tools are to be used (see Box 64).

Box 64: Guidance for ward development committees in Bangladesh

Lack of clear guidance in the first annual cycle meant that planning was done solely by the 7-person committee in some areas, while in others the committee simply facilitated a larger plenary session attended by 80 -100 participants. Also, the role of the female UP member as chairperson was contested by other UP members. To remedy this, the following guidelines were agreed with the union parishad, as authority for that area of jurisdiction:

"Ward development committees (WDC) shall be set up in all wards involved in the local planning process. The WDC shall comprise: the elected member of the union parishad from that ward, who will be the chairperson; the woman elected member of the union parishad representing the area of the ward; and up to five members of civil society co-opted for the purpose. The composition of the WDC shall be approved by the union development committee or standing committee. The duties of the WDC shall be to:

- Inform members of the ward about the SLGDF Project and its activities in the ward;
- Liaise with the UFTs in organizing participatory appraisals in the ward, in particular ensuring that women and other disadvantaged groups are represented in the meetings;
- Help collect information on the development situation in the ward;
- Draw up the project proposals (Form A supplied) identified by ward members for funding under the LDF and other funding sources;
- Present these proposals to the initial selection meeting of the UDC;
- Prepare and submit the feasibility assessments for any schemes selected by the union parishad to be implemented in the ward;
- Establish scheme implementation committees for approved schemes and ensure reporting on progress of implementation to the UDC."

Table 22: VDC Project Proposal Format (Nepal)

1. VDC Name		
2. Date of Village Council Meeting Leading to Proposal		
3. Project Title		
4. Preliminary Proposal		
(a) Problem addressed by project		
(b) Type of project (tick sector)	Health	
	Education	
	Roads/bridges etc.	
	Agriculture	
	Community development	
	Other	
(c) Description of project		
(d) Rough estimate of costs	Total cost	NR
	Local contribution	NR
	VDC contribution	NR
	Funding requested	NR
(e) Priority level of project		
(f) Number of beneficiaries	# beneficiary H/Hs	
	# women beneficiaries	
	# beneficiary DAG H/Hs	
(g) Likely implementation arrangements		
(h) Arrangements for operations and maintenance		
(i) Other information (location, specifications, etc.)		
5. Declaration	Signed: VDC Chairman	Signed: VDC Secretary

Standard proposal formats

Once proposals have been prioritized, it is important to ensure that they are all developed consistently, with sufficient information for higher-level appraisal. Failure to do so makes the work of appraisal and ranking by the higher level much harder and the process lengthier, as questions and site visits by the higher level will be required to fill in any information gaps. Table 22 offers a sample form as proposed for use in Nepal .

4. Screening, development, costing and appraisal

Assessment of feasibility

Priority proposals are forwarded by community institutions to the next tier of local government for screening of their overall feasibility, and further development and costing. A range of appraisal issues that need to be examined is presented in Box 66.

Box 65: Two lessons learned regarding bias in community proposals

LDP experience suggests that an LPP based solely on community proposals may have two important limitations:

Bias towards known 'solutions'

Community proposals tend to focus on addressing problems for which there is an obvious, known 'solution' – hence the preponderance of wells, schools, clinics (and, in Bangladesh, simple earthworks, or in Cambodia, irrigation pumps) and similar 'off the shelf' investment proposals. There is typically a dearth of proposals for investments that require prior technical assessment and design, such as irrigation schemes or catchment protection measures.

Offsetting this bias requires prior information on the options open to communities, as well as deployment of a level of upfront technical support to communities that is not always feasible.

Bias towards local interests

The logic of collective self-interest means that community gatherings or village committees tend to focus on problems that concern themselves, rather than neighbouring villages or the broader public interest. An LPP that is only fed by community proposals may therefore be skewed towards very local investments and away from those benefiting a wider public or with more strategic impact.

In order to offset this bias, institutions at higher, local government level and representing wider areas need to be able to introduce proposals into the LPP; something that is often opposed by community mobilization/empowerment advocates, who fear that it signals a return to top-down control and manipulation.

Box 66: Checklist of appraisal issues

Land tenure issues: existing land tenure arrangements and incentives to resource users for future investment, maintenance and upkeep; primary and secondary rights of local users;

Social desirability: projects fully endorsed by local beneficiaries (including socially excluded categories and minorities) and seen as priorities by them;

Cultural acceptability: projects conform to local culture and beliefs;

Gender issues: projects take account of gendered priorities and issues;

Economic viability: extent to which such projects are economically viable (subsidised economic activities are generally excluded);

Management issues: local user group capacity to manage and maintain assets and facilities;

Technical feasibility: success of similar projects attempted before or elsewhere; projects familiar to local beneficiaries; projects within the capability of local contractors or service providers;

Financial viability: recurrent costs (operations and maintenance) associated with any new infrastructure (do project proposals take such costs into account, and what provision do they make for meeting them?);

Environmental impact: effects on the environment and related risks need to be identified;

Sectoral issues: projects to be appraised against existing sectoral policies and programmes

The appraisal process will usually involve interaction between the appraisal body and the proposing community institution, as well as field visits by technicians. This may delay the LPP since technicians are not always available, and/or because field travel can be hard to organize. Adequate time needs to be allowed for this step of the LPP. One way of reducing the time necessary may be to include the appraisal process in the community consultation phase, an option that has proved successful in Viet Nam.

One practical lesson learned through LDPs is that the initial costing of proposed projects needs to be reasonably accurate. This is because underestimating costs may create problems in the subsequent tendering process: finalized costings (whose ceiling is determined by the budget, and thus by the original, rough cost estimates) will be insufficient, thus making it very difficult for contractors to submit bids within budget. To help local governments estimate costs reasonably accurately, LDPs might consider providing them with approximate cost schedules for 'standard' types of investment, based on past experience.

Table 23 presents the formats used for appraisals in Cambodia and Viet Nam.

Table 23: Appraisal format (Cambodia and Viet Nam)

Item	Cambodia (Form II)	Viet Nam (Particip feasibility study)
1. Project title and code	Included	Included
2. Village/commune/district name	Included	Included
Section A: VCD Formulation		
A.1 VDC planning framework (a) Problem to be solved (b) Planning context (relation to other projects, priority list, other discussions) (c) Involvement in preparation (i.e. technical advisors/PIC/NGO)	Included	Included
A.2 Project information (a) type; (b) brief description (c) attached documents, such as location sketch, construction drawings (often these could be standard LGED or DPHE drawings), forms of quantities	Included	Included
A.3 Implementation overview (a) Proposed construction schedule (b) Implementing partners/contractors (c) Cost summary (Contractor's work, Village contribution, Other contribution, Grant requested) (d) Schedule for first payment	Included	Included
A.4 Feasibility (a) Number of beneficiaries /beneficiary households (b) Cost per beneficiary household	Included	Included, expanded into sections on: (a) Technical (technically sound?) (b) Economically justified, in terms of cost per beneficiary household (c) Social, both in terms of number of beneficiaries, category and whether there will be participation in implementation (d) Environmental (any particular positive or adverse impact)
A.5 Declaration	Included	Included
B. Feasibility assessment by CDC/CDB/UDC	Included, Cambodia form also leaves a right margin for comments. These could be repeated, but may relate to relationship with projects from other CDCs.	Rather similar
B.1 General planning framework		
B.2 Project design		
B.3 Implementation details		
B.4 Feasibility		
B.5 Endorsement and budget request	Might require some adjustment to fit into LDF. Might not endorse but suggest postponement, other funds, etc.	

Box 67: A surprisingly frequent problem - selection solely by benefits

It is surprising how often many of the local planning tools promoted by donors and NGOs (and initially proposed by some LDP teams) rank community proposals purely on the basis of their expected or perceived poverty impact or other benefits, or numbers of beneficiaries, without reference to their costs. Benefit ranking methods are not especially problematic in the LPP when preference ranking is used at community levels, where investment costs of different proposals may be roughly comparable, and where there will be a relatively strong consensus on priorities.

But they do become problematic when applied at higher levels in the LPP (i.e. at one or other local government level), where there may be much greater variation in both investment costs and in views on priorities. Here a simple preference approach will tend to favour larger investments, resulting in inappropriate and inefficient allocation of funds and reducing the total net development benefit impact of available funds.

5. Ranking and selection

The need to ration scarce resources

Typically, LPPs generate proposals for investments whose total cost greatly exceeds the funds available, meaning that some will be selected and the others must be rejected or delayed. In order to ensure that the selection process yields the greatest net benefits and is consistent and transparent, an appraisal and ranking method is needed that sets the benefits against the costs of each proposal more clearly than the ranking done at community level. This more ‘technical’ step frequently receives insufficient attention in participatory planning (see Box 67).

The basis for ranking and selection: benefits and costs

The appraisal, ranking and selection of investment proposals generated through the LPP present a methodological challenge, since the investments proposed are generally:

- Not direct-revenue generating investments, meaning that their benefits cannot be measured in simple monetary terms, and therefore that the standard cost-benefit analysis techniques developed by many agencies do not apply;
- In diverse sectors (clinics, wells, schools, roads, etc.), meaning that the expected benefits are qualitatively of very different kinds, and that even standard cost-effectiveness comparison ratios such as ‘cost-per-person served’ (often used to compare non-revenue generating investments within the same sector) are not adequate.

To illustrate the difficulty of ranking diverse proposals, a partly worked example with a simple tool used at lower-level local government in Uganda is shown in Table 24.

Table 24: Format for Prioritizing and Selecting Investments in Uganda

Sn	List of projects	Cost in Ugandan shillings	Number of beneficiaries	Directly leads to poverty reduction	Environ-ment protect-ed	Ranking score and order	
1.	Rehabilitation of a health unit - X	20,000,000	70 people	Y	-	?	?
2.	Rehabilitation of a footbridge	500,000	35 households	N	-	?	?
3.	Spring protection village Y	600,000	70 people	Y	Y	?	?
4.	New primary school	150,000,000	400 pupils	Y	-	?	?
5.	Food security (cassava)	50,000	35 households	Y	-	?	?
6.	Information management	50,000	35 households	N	-	?	?
7.	Vermin control	3,000,000	35 households	Y	Y	?	?

A cursory review of the illustration above indicates how tricky it is for any one person (let alone a whole committee) to arrive at a clear ranking, and how important it is to have practical and consistent tools, clear guidelines and training.

What is required is a tool for scoring, weighting and aggregating the different types of benefit, and setting that against the investment (and other) costs to provide a simple comparable benefit:cost ratio or, better still, a net benefit measure for each investment proposal. The theoretical overall structure of possible benefits and costs is outlined in Box 68.

However, while the generic structure of the ideal tool is fairly clear, translating it into a simple, practical, versatile tool manageable by rural local government officials and councillors has not proved easy for any agency, UNCDF included. The Technical Note in Annex to this Chapter (see page 240) from the Timor-Leste LDP is one of the most recent attempts to address this challenge, but there is insufficient evidence as yet on the tool's usefullness (see Box 69).

6. Compilation of draft investment plan, funding matrix and budget

The planning/finance committee of the local government level concerned should assemble the list of priority selected investment proposals and proceed as follows:

Identify appropriate funding sources

There is a general tendency among all concerned to suppose that the LDP-funded block grant allocation is the only source of funds. However, most local governments have several possible sources of investment funding, of which the LDP block grant allocation is only one, albeit possibly the largest or most certain. There are frequently NGOs operating in the area, or government sector programmes, or social funds – all of

Box 68: Generic structure of benefits and costs to be compared

Benefits

- The value of the improved service or access resulting from the investment (also reflecting priority of the sector as determined in strategic plan)
- Number of people benefiting
- Special weight for numbers of poor people benefiting
- Special weight for numbers of women and other marginal groups benefiting
- Special weight for environmental benefits (if not included in sectoral benefit weighting)

Costs

- Total investment cost
- Long-term recurrent costs
- Special weight for relative difficulty of implementation

which may constitute more or less certain avenues of finance for specific types of investment. In order to make the best use of each source of funding it is useful to establish the type of matrix shown in Table 25 to promote a more integrated approach.

Table 25: Matrix for identification of appropriate sources of funding

Selected investment schemes	Source of investment funding			
	LDP block grant & own revenue	More "conditional" funding sources		
		Sector programme	NGOs	Social fund
Borehole	X Investment costs		X Public hygiene training	
School		X Investment costs		
Clinic	X Investment costs		X Staff training & drug kit supply	
Community Revolving Fund				X

Developing this integrated approach to LDP financing is a critical element in successfully mainstreaming and maximizing the impact of the LPP. Otherwise it will simply remain a project-based planning system.

However, two things are required for such an integrated funding approach to work successfully:

- Effort invested in persuading other funding organizations to accept that within the LDP area there should be one integrated LPP (managed by local government), through which all public and collective investments are identified;
- NGOs and social funds should be encouraged to make at least notional fund allocations to local governments, even if funds are not actually channelled to local government accounts, and they should inform LGs of their own priorities and intentions.

The implementation work plan

Work plans need to be established for each selected investment, with:

- Timelines that take account of various constraints, such as seasonal factors, workload of key technical departments and other critical path issues (e.g. the timing of NGO training and awareness campaigns may affect timing of borehole drilling), etc.;
- Clear designation of responsibilities of various actors for procurement, oversight, etc.

Where possible, these plan proposals should be made public before the next step (posted on notice boards, councillors reporting back to their constituencies) (see Table 26).

7. Final approval of investment plan and investment and recurrent budgets

The planning/finance committee should submit the investment plan and related budgets to full council, in accordance with procedures laid down by statute and regulations, and as part of the annual budget approval process. LDPs may need to provide support to local planners and officials, in order to maximize the extent to which draft plans and budgets are readily understood and thus transparent. This is not always self-evident, particularly for budgets: in francophone countries, for example, the standard budget nomenclature as prescribed by local government regulations is far from simple, particularly for commune councillors with limited literacy and numeracy skills.

Box 69: Lesson on investment selection: local politics and the bias towards an 'even spread'

LDP experience suggests that actual investment selection by local governments does not always strictly comply with the outcome of technical ranking with such tools. Local politics almost always favour spreading the selected investments to benefit the widest number of communities (village, wards), even if this is sometimes at the cost of more strategic inter-community, public investments that may be more effective in addressing poverty or leveraging development potential. Thus, poverty-reducing efficiency in the allocation of public resources is often sacrificed to geographic or inter-community equity – although there is also evidence that the latter becomes rather less pronounced after two or three planning cycles.

That said, resource allocation is an eminently political process of bargaining and compromise worldwide, and nowhere more so than within local government, as is right and proper. The aim of planning aids is to inform this political bargaining process, make it more transparent and make trade-offs more apparent.

Table 26: Timor-Leste: Final Sub-District Development Committee Annual Investment Plan and Budget

Annual investment plan/budget SDDC: ____________ For FY 200_/200_						
Order of priority	Project title & description	Project ID No.	Location	Budget estimates ($)		
				Local contribution	LDF contribution	Total Budget
1						
2						
3						
4						
…						
…						
	Technical support services (maximum 5% of LDF allocation)		-	-		
			TOTALS			

Date of approval by SDDC: ____________

Signed: (1) SDDC Executive Secretary: ________________ (2) SDDC Treasurer: ________________

Date: ____________

Where possible this council session should be advertised to the public in advance, to allow people to take part in – or at least listen to – the presentation and discussion of proposals. However, this will depend on the extent to which legislation and regulations provide for public attendance at and participation in budget sessions.

Again, once they have been approved or modified, plans and budgets should be made public through posting on notice boards, councillors reporting back to their constituencies, etc.

8. Endorsement of plan and budget by higher authority

The extent to which local governments need higher-level approval for their own plans and budgets varies considerably between countries.

Typically, in countries without a strong tradition of local government there is a tendency to insist on ex ante approval of local government plans and budgets by a local officer of central government (prefect, governor or financial officer under the authority of the latter). Thus, in francophone countries commune budgets will be reviewed and approved for their *legalité*. Technically, this is a check to ensure that plans and budgets comply with the regulations, and is not usually supposed to allow a review and change of the substantive priorities reflected in them (termed control of 'opportunity').

As a final postscript, LDP experience suggests that the temptation to wish to double-check locally determined priorities is not restricted to central government officials. It is not uncommon for both LDP project teams and even UNCDF Programme Officers or UNDP officials to expect to have a role in the final review and approval of the investment proposals and plans approved by local government authorities.

Box 70: Risk of intrusive control due to professional training and donor agency accountability

Professional development workers are usually trained in – and often expect to be involved in–economic and social appraisal and vetting of project proposals. It is professionally gratifying for them to have a say in proposals emerging from communities and local governments, where people often lack such technical skills. Also, since they feel accountable for the use of donor funds, not to exercise such a role may seem to be a dereliction of duty. Nevertheless, it should be understood that this inclination is:

- Quite contrary to the aim of empowering local bodies to make their own decisions and mistakes and to be accountable for them;
- Misguided, because every LDP – in full regime – typically generates well over one hundred proposals every year, far more than one or two project or UNDP officers could hope to screen and appraise in any meaningful way, unless they made it their mission to work and travel to the field full-time in order to do so.

It should be made clear that the most effective strategy for reconciling local empowerment and accountability with maintaining investment quality is the combination of clear guidelines and ex post control.

Part III. Investment and Scheme Implementation

A. Context and Clarification

1. Underlining the importance of scheme implementation

Scheme implementation (or 'production') refers to the actual delivery of investments identified and selected further upstream in the planning process. It is the 'supply' response to the 'demand' generated through participatory planning.

The importance of implementation is underscored by the fact that, in the eyes of the public, this is the stage at which the projects they have identified as priorities are finally delivered; and, quite rightly, the public will judge the effectiveness of their local government by its capacity to deliver. Often, the quality of the investment itself will at least partly determine the quality of service generated.

There is some evidence to indicate that LDPs have been considerably more successful in developing effective – and genuinely inclusive or participatory – ways of articulating demand for public goods and services through the planning system than they have been in satisfying that demand in a timely, efficient and appropriate manner. Many LDPs find that the implementation of schemes identified through inclusive planning takes much longer than expected, and sometimes results in poor-quality infrastructure. All of this indicates the need for LDP designers and management to pay rather more attention to the issue of implementation than they have in the past.

Devolving implementation responsibilities

There is a considerable weight of evidence to suggest that the application of subsidiarity principles to investment or scheme implementation can lead, through a more developed sense of local ownership, to improved efficiency, enhanced flexibility and better assets (overall). The more directly involved a given public is in scheme implementation, the more likely it is to keep a close eye on and contribute resources to asset production. Box 72 provides some illustrations of this from LDP experience.

Despite these advantages, there are clear limits to how far full responsibilities for implementation can be devolved to lower levels. These are largely linked to the technical complexity of the work involved.

Box 71: The Bias Towards Planning and Demand-Driven Approaches

In LDP experience, there is a tendency for both the literature and the development community at large to equate infrastructure or service delivery purely with the process of planning, and to neglect the critical next steps in the delivery cycle: implementation. This may be because they seem unattractively technical, with little obvious conceptual interest.

To put it another way, the recent emphasis on demand-driven approaches has led to a tendency simply to assume that supply response will be forthcoming on its own. This is not always the case, particularly in poor rural areas of LDCs.

Box 72: Gains from devolving responsibilities for implementation

Bangladesh: Field verification of the construction of open face culverts under different ISD arrangements revealed major differences between those provided under UNCDF-supported SLGDP arrangements and those delivered through the usual deconcentrated arrangement, where infrastructure is planned by and funded through the local department of engineering (LGED). All the culverts provided under LGED arrangements were observed to be greatly inferior to those produced under SLGDP, in terms of construction techniques, materials, build quality and service capacity. The main problems with LGED schemes relate to the numerous instances of attempts to cut expenditure through the use of inadequate and inferior materials, insufficient labour, poor supervision and minimal involvement of local communities. This not only leads to serious shortcomings in both the execution and quality of works, but will also have a long-term impact on overall asset sustainability. Field verification confirmed that SLGDP schemes were capable of producing substantial differences in the use of materials, labour and other inputs, and strict adherence to technical specifications regarding slab thickness, wall footings, plastering, shuttering and finishing. Moreover, these structures were confirmed as being able to withstand double the load of an ADP structure, with a minimum lifespan of 25-30 years, or between 3-5 times that found under ADP provision. The very high quality of SLGDP works was reported to be partly a function of the implementation and supervision process.

Cambodia: A detailed survey of a range of culverts and other construction schemes produced through the devolved Commune Sangkhat Fund indicated that the former were consistently less costly than standard contractor 'reference prices' (by some 6% to 28%). However, the survey also raised concerns that this price differential may be leading to cost-cutting by contractors seeking to maintain their margins, and thus compromising quality.

Section structure

This section as a whole focuses on the implementation of investments (or 'production' of assets), rather than management of the assets/services that derive from those investments.

The first part sets out some basic definitions and common terminology, along with a description of the sequencing involved in scheme implementation. Each phase of scheme implementation is then considered, with an examination of the options entailed and the lessons learned through experience.

B. Investment Implementation: an Overview Framework

1. Investments and assets

The types of assets generated by the LPP may vary considerably, ranging from 'standard' constructions (schools, health posts) or site-specific structures (bridges, irrigation or soil/water conservation schemes), to furniture or equipment (school desks, drug kits, etc.) and agricultural inputs (seedlings, pumps), or even software (training courses leading to improved human resource capacities).

In these guidelines a distinction is made between the investment, which is seen more as a process (construction of a building, purchase of equipment, training, etc.) and the asset itself, which is seen as the final product of an investment process (a building, hand pump, enhanced human resources, etc.). Investments thus create assets of one kind or another.

2. Breakdown of implementation tasks

Implementation tasks vary according to the type of asset/investment involved. A breakdown of the main tasks is presented below.

Clarifying ownership

Although its importance is often ignored, the first basic task common to all investments is to assign ownership responsibility for the successful and efficient implementation of the investment, as well as accountability to the local government funding body and local community. Linked to this is the issue of determining ownership of the asset produced by the investment.

Determining investment ownership

This should be assigned on the basis of subsidiarity (similar to the assignation of planning approval functions discussed above in section B.1 of this chapter), bearing in mind considerations of feasibility and efficiency.

As far as possible, LDPs should seek to situate overall responsibility for scheme implementation at the level of local government that is financing the scheme in question. Thus, if a scheme is being funded from a rural commune budget, the commune council (or its executive branch) should normally be responsible for its implementation, and should therefore be seen as the owner of the investment (*maître d'ouvrage* in francophone cases). As owner and principal funder of the investment, local government has the overall responsibility for ensuring and overseeing its implementation.

Determining ownership may occasionally be complicated by vague or overlapping mandates of local government and (deconcentrated) line agencies responsible for health, education, etc. To avoid problems further down the line, it is important that the investment scheme profile approved in the LPP clearly designates responsibility for implementation.

Determining asset ownership

Although investment ownership (*maîtrise d'ouvrage*) in LDPs is almost invariably assigned to the LG unit financing the investment in question, ownership of the asset produced by the investment is another matter. This issue is only touched upon here, but is discussed in more detail in section III.D of this chapter, under Operations and Maintenance.

There is no intrinsic reason why certain types of asset produced by LG investments cannot be handed over to other organizations/bodies on completion, either irrevocably or conditionally. As a general principle, the most likely organization to which a local government might devolve asset ownership would be the one operating and maintaining the asset:

- In the case of a hand-dug well for which O&M is ensured by local users, ownership of the asset produced by LG finance can, in practice, be devolved to a community- or user-based committee;
- In the case of a primary health centre or secondary school, for which O&M is ensured by deconcentrated line departments, ownership of the asset produced by local government investment can be handed over to the appropriate social service.

In other cases, local government may decide that it should be the owner of the asset it has invested in: this might be the case for rural roads that it has a mandate to maintain, or for market sheds whose management can still be delegated.

Detailed design

Although the LPP will have identified an investment profile outlining the main parameters of the investment, investment structures need to be **designed in sufficient detail** to be practicable, and to sound and appropriate technical standards.

Production/supply arrangements

These depend upon legal regulations, but there are generally two basic options available to local governments when deciding on production arrangements for investments:

- Contracting work to a specialist agency, usually a private firm, contractor, engineer or craftsman (although government agencies and NGOs may occasionally also perform this task under contract), and usually on the basis of some kind of competition or rule-bound selection process, generally referred to as 'procurement' in this section;
- Delegated and direct execution by a community body or user group, or even in extreme cases (force account) by local government itself, using materials directly procured. With this option, the agency responsible for production of the asset generally becomes its eventual owner or manager.

Once local governments have decided on the basic production arrangements option, the next step is to identify an individual producer/supplier for each particular investment.

The lessons learned with regard to production/supply arrangements are addressed in the next section.

Technical supervision and monitoring

Construction work requires periodic technical supervision and monitoring by an independent agency to ensure that designs are followed or modified appropriately, and suitable materials used, etc.

Financial management

Money to pay for procurement, construction, design and supervision should be handled, disbursed and accounted for by a local body.

These tasks are discussed in detail in the remaining sections of this chapter.

3. The actors

A final element in the framework is recognition of the different local actors with a role to play in the tasks outlined above. These include:

- Local government bodies: councils, executives, committees;
- Local sector/line departments: these may be under LG control, at various levels, or may in some cases be deconcentrated and not under LG control at all;
- Village or ward committees or councils;
- Informal community or user groups;
- Private entrepreneurs, builders, technicians, craftsmen;
- Specialist NGOs.

C. Production /supply arrangements

These arrangements lie at the heart of investment or scheme implementation. They involve deciding what type of option to use and then selecting an individual producer or supplier.

1. Options

As briefly discussed above, LDPs have accommodated and/or promoted two basic types of production/supply arrangement:

i. contracting out to specialist producers/suppliers, usually (but not exclusively) from the private-for-profit sector, and on some kind of competitive basis;

ii. delegating production/supply, either to a form of community or user-based group or (much more rarely) to a department of the local government itself. In either case, selection of the producer/supplier is unlikely to be made on a competitive basis.

The extent to which these options are realistic and available in any given country varies according on two main considerations:

i. The legal and regulatory framework, which may or may not allow both options. Box 73 presents two contrasting regulatory frameworks with regard to production/supply arrangements;

ii. Prevailing attitudes and perceptions strongly influence how local governments (as investment owners) tend to deal with implementation arrangements. An example of this is illustrated in Box 74.

Box 73: Contrasting LG regulations on the production of physical assets

Nepal: The Local Bodies' Financial and Administrative Regulations (LBFAR) provide for two basic options for local government scheme implementation:

- Delegating implementation responsibilities to user committees (UCs). According to LBFAR, this is the recommended option for implementation of any project valued at less than 1,000,000 NRs (approximately US$ 15,000 in 2004). However, LBFAR also allows for UCs to be implementing organizations for projects valued at over 1 million NRs;
- Contracting out to private or public sector contractors through a range of procurement procedures.

LBFAR also states that, under normal circumstances, local government should not use a force account for project implementation. However, in the event that procurement procedures fail to attract suitable bids and UCs are unable to undertake project implementation, LGs can use a force account.

Francophone Africa: Although there is no explicit reference to implementation options in francophone African local government legislation and regulations, Treasury procedures in francophone Africa make it extremely unlikely that communes would be able to contract out scheme implementation to community- or user-based groups (see Chapter 2.G).

Box 74: Implementation preferences in rural Bangladesh

In Bangladesh, official regulations specifying that contracts of more than TK 50,000 (roughly US$ 850 in 2004) should be tendered to commercial contractors apply to local government. Below that threshold, local governments can delegate scheme implementation to community- or user-based groups. As a result, union *parishads* seek to ensure that contracts for both SLGDP and other schemes are estimated at less than this amount whenever possible, to avoid the additional 17.5% margin allowed for commercial contractors, and because they lack control over the implementation of works carried out under contract. Such contracts are generally managed at the (higher) *upazila* level, by the Local Government Engineering Department (a central agency) or other line departments. The unions also feel that levels of corruption are higher for such works, and that quality is significantly worse as a consequence. Complaints about the quality of work made at the *upazila* level are generally ignored.

Where the prevalent perception is that commercial contracting is generally corrupt, produces low quality work or leads to lack of local control over producers/suppliers, there is a *de facto* tendency for many local governments to greatly prefer the community-based implementation option. As the following will demonstrate, each option has its advantages and disadvantages.

UNCDF experience suggests that, all things being equal, the availability of different options for production arrangements is a positive feature. The ability to use both basic

Box 75: Flexible implementation modalities in North Gondar, Ethiopia

In North Gondar, Ethiopia, *woredas* have been able to either contract out investment implementation or delegate implementation to local communities, using funding from the Woreda Development Fund Project. This flexibility has clearly been helpful, in that:

- Competitive bidding arrangements and private sector contractor implementation have been the norm for strategic projects such as primary schools, which are considered more complex and requiring greater capacity;
- Community implementation arrangements, with suitable backstopping from *woreda* technical departments, have been the preferred option in the case of smaller, community-based projects such as hand-dug wells, spring capping and forestry nurseries.

types of implementation option provides rural local governments with an important degree of flexibility, enabling them to take account of the diversity of local situations and reality of local constraints. For example, contractors may be unwilling to bid on small-scale projects in remote areas, or may only do so at very high cost. Conversely, community-based implementation, whilst appropriate for small-scale, low technology micro-projects in remote areas, may be inappropriate for larger projects. Box 75 illustrates how woredas in Ethiopia use different options for different circumstances.

2. Contracting out to specialist producers/suppliers

Contracting out to specialist producers/suppliers, generally in the private sector, requires sound procurement procedures whose principal objective is to obtain high quality goods and services at a competitive price. Therefore, procurement procedures should be designed to get the best value for money and minimize the risks of patronage and corruption.

Regulations

A first step is to determine whether national regulations regarding local government procurement exist and, if so, what they prescribe. Where such regulations do exist, LDPs would normally be expected to use them, albeit with the aim of using the experience to determine their appropriateness and develop innovations where necessary.

In some cases, particularly in countries where decentralization reforms are at an early or even embryonic stage, there may be no clear regulations on **local** government procurement. In other cases, there may be overly rigid limitations, on the ceiling for LG procurement, for example. Under such circumstances, LDPs may need to establish innovative procedures and perhaps ask for restrictions to be waived (see Box 76).

It may also be the case that existing regulations governing procurement are insufficiently rigorous and therefore need to be modified. This will require specific authorization from central government, and should be used and regarded as a policy pilot.

Box 76: Piloting procurement regulations in Mali

The Timbuktu Commune Support Project (TCSP) in Mali started its activities in 1999, just before the first ever local elections, and at a time when no regulations had been drafted regarding commune procurement. The project therefore introduced its own set of procurement regulations (to be applied to investments funded from LDF allocations), drawing on and improving upon a procurement model used by another donor's local development project. TCSP procurement regulations established ceilings for different types of procurement procedure (limited *pro forma* invoice comparison or shopping, limited competitive bidding, full competitive bidding). With some minor modifications, these project regulations were later adopted as national regulations for commune procurement.

Procurement options

Basically, most procurement procedures for ISD vary according to the extent to which they explicitly encourage competition. In general, the more costly the asset to be produced, the more competitive the procurement process should be.

a. Tendering and competitive bidding

Introduction

The procurement of goods and services financed by LDP block grants is often undertaken through a range of tendering and competitive bidding arrangements. Tendering and competitive bidding have the (theoretical) advantages of:

- Ensuring a degree of transparency in the procurement process;
- Being suitable for the procurement of a wide range of public goods and services;
- Ensuring that contractors are capable of carrying out works;
- Reducing the cost of investments.
- Establishing a relationship between owner and contractor that is output-based and tied to a timeline.

These theoretical advantages need to be maximized through the assessment and/or design of tendering procedures. This can be done in a number of ways:

- Transparency is likely to be increased by ensuring that a wide range of stakeholders (LG officials, contractors, representatives from beneficiary communities) are present at bid openings, that standardized forms with simple but robust scoring systems are used for assessing bids, and that the results of the tendering process are made public;

- Ensuring that bid assessment processes take account of the bidders' past performance and capacities, in order to determine whether contractors are capable of carrying out the work envisaged;

Box 77: Cost savings through competitive bidding

Viet Nam: Evidence from the Rural Infrastructure Development Fund (RIDEF) project in Viet Nam indicates that competitive bidding can lead to substantial savings, and thus more efficient use of limited financial resources. For example, the mid-term evaluation of RIDEF concluded that the average successful bid has been more than 10% lower than the initially estimated costing; in some cases successful bids have been as much as 25% below the estimated costing. This has enabled communes and districts to plan additional projects, funded out of the savings made on previous projects.

Cambodia: The LDF component of the CARERE (Cambodian Area Resettlement and Reintegration) project introduced bidding procedures into the local planning process, with good results in terms of cost savings. The final evaluation of the 2nd phase of CARERE showed that cost savings after bids averaged from 6% to 21% of the original estimates.

- Controlling costs by trying to maximize competition, stipulating the minimum number of bids necessary for the tendering process to be legal, and ensuring that information about tenders is circulated as widely as possible (see Box 77).

Process

Competitive bidding usually takes place in several stages, for which a number of basic guidelines apply:

- **Pre-bidding:** Tender documents are prepared during this stage. They should include clear specifications of what is being tendered and the conditions under which bids will be considered, written in a language accessible to all potential bidders. Tender documents should usually include the following:
  - Invitation to bid;
  - Instructions to bidders (including the criteria for bid evaluation);
  - Form of bid;
  - Form of contract;
  - Conditions of contract;
  - Specifications (and drawings where appropriate);
  - Lists of goods and quantities (where relevant);
  - Delivery time or schedule of completion;
  - Any necessary annexes (e.g. for deposits, bonds, etc.);
- **Public notice and notification to bid:** Timely notification of bidding opportunities is essential in competitive bidding, in order to give potential contractors or service providers the time needed to prepare their bids. In addition, notices should be widely published (in newspapers, by radio, on public notice boards, etc.) to attract as large a number of bids as possible;

Box 78: Tender boards in rural communities in Senegal

Rural community (RC) tender boards are established to assess bids for RC infrastructure projects. These boards are composed as follows:

- Legally-mandated, voting board members – three elected RC council members and one local Treasury official;
- Consultative members drawn from relevant local line departments and LDP staff, who provide the board with the necessary expertise for technical appraisal of any bids;
- Observers drawn from the communities that will be the direct beneficiaries of the investment, to increase transparency.

- **Bid opening and evaluation:** At this stage, bids are assessed and analyzed. In order to maximize the transparency of the process, the date and location of bid opening should be made public, and all bidders should be invited to attend. Experience has shown that bid evaluation is one of the most difficult steps to carry out correctly and fairly in the procurement process – and one of the easiest to manipulate. LDPs should therefore seek to:
    - Establish pre-determined, clear and 'objective' criteria for bid evaluations. Such criteria generally need to be made public;
    - Encourage the creation of bid evaluation committees (or local tender boards) that include a range of institutional representatives (the investment owner, technical departments, beneficiary community, Treasury), thus enhancing transparency, but without making the process too cumbersome or costly (the box below provides an example from Senegal);
    - Ensure that bid evaluation documents are available to the public and any oversight bodies, such as auditors;
- **Bid award:** The procuring agency should notify the successful bidder and then enter into contract negotiations (particularly if the bid price is higher than the initial costing). Normally, selection of the successful bidder should be made public, and LDPs might also consider the need for unsuccessful bidders to be explicitly informed;
- **Redress procedures:** Some form of redress may need to be considered in the event that unsuccessful bidders (or contractors who did not bid because they were not informed about the process) suspect that the tender process was unfair or confidentiality had been compromised.

Difficulties and constraints

Experience has also shown that various problems may arise during tendering and competitive bidding. These include:

- Slowing down scheme implementation, especially if the tendering process does not yield a successful bidder. This often happens because the original costing was seriously under-estimated, thereby highlighting the need for good upstream planning (see above – planning). Slowdowns may also occur when it is necessary to go through a tender board at a higher level (as in Uganda, where LC3s must use the LC5 Tender Board);

- There is sometimes a tendency for local officials and others to award contracts to the lowest bidders. Indeed, some national regulations (such as those governing procurement by local bodies in Nepal) also place an overwhelming emphasis on lower price as the principal basis for selecting bidders. Experience has shown that price is only one of the criteria that should be used in evaluating bids, and that other criteria (technical and quality) are often as important as price, sometimes even more so. Bids should therefore be subjected to a multi-criteria analysis for best results;
- Local officials often need special training to enable local governments to procure goods and services through a tendering process. Bid evaluation procedures can be quite complex, as evaluators are often required to consider price, experience, equipment and project duration. However, this training should be a part of the LDP's capacity building strategy. In addition, LDPs can try to simplify the bid evaluation process by encouraging higher-tier local governments or central government to draw up lists of pre-qualified contractors, thereby making price the only criterion for bid evaluations. Box 79 illustrates this with an innovative example from Cambodia.

Box 79: Pre-qualification of contractors in Cambodia*

Pre-qualification is being piloted in Siem Reap province of Cambodia. Contractors apply to be listed by the provincial executive committee on the basis of their documented experience, tax payments, legal status, equipment inventory, history and references from past work. They are then graded by category (roads, buildings, etc.) and maximum contract for which they are allowed to bid ($0-5,000, $5-10,000, $10,000 and over). No legitimate contractors have been rejected so far, although two or three government staff (who are prohibited from engaging in public works) have been turned down. There are currently 33 contractors on the list.

The list was originally intended to simplify the process of contractor selection and make it more transparent. Bids in Siem Reap are now evaluated solely on the basis of cost, as all other aspects are either considered in the contractor's qualification process or assumed as part of the contract.

The list of pre-qualified contractors should also play an important role in enforcing quality and providing leverage to ensure that contractors deliver quality work on time. While it can be difficult to force someone to re-do poor work or keep to a pre-agreed schedule, it is easy to give them demerits and not award them any further work. According to project owners, CARERE staff and contractors, the system increases both cooperation and quality.

**Adapted from CARERE Final Evaluation (2000).*

- Tender and contract documents can also be quite complex, covering terms of reference, schedules of activities, bills of quantities, etc. Lower-level tiers of local government often lack the technical expertise to draw them up, but this could be resolved by ensuring that part of the annual block grant may be used to pay for specialist consultancy inputs (or mentoring from upper tiers of local government) to draft tender documents. LDPs have also tried to develop standardized formats for tender documents and contracts;
- In some countries, and particularly in more remote rural areas, contractors may be very unwilling to bid on small projects whose profit margins are likely to be slim, such as a single culvert in one village. It may be possible to resolve this by lumping projects together into single tenders, as was done through RIDEF in Viet Nam, thereby increasing the value of tenders and making them more attractive to potential contractors. In other cases, there may be no option other than to encourage or pilot community-based or user-group implementation modalities;
- It may be that local contractors are unaccustomed to bidding procedures, have insufficient capacity and thus prove unable to make adequate bids. In such circumstances, LDPs may have to provide capacity building support to contractors as a way of increasing competition through more bids. Box 80 illustrates this with a concrete example of LDP support to private sector contractors in Tanzania.
- It is sometimes argued that tendering procedures and competitive bidding favour larger contract**ors**, who are often 'outsiders', at the expense of smaller, usually local, contractors. This is partly because smaller contractors frequently come from the more informal sector and are unable to comply with procedures formulated at the national level, or are reluctant to bid on contracts for which advances are small or non-existent because of cash flow constraints. One way of resolving this problem is to pilot adapted procedures that do not immediately disqualify smaller, more informal contractors. However, this needs to be done carefully so that the need for a reasonable degree of reliability is not compromised;
- Reluctance to contract out or apply tendering procedures on the part of local government officials. There are reasons for this: in Bangladesh, for example, allegations of kickbacks are so widespread that even honest union *parishad* chairpersons are hesitant about contracting out for fear of being accused of malpractice. Compliance can be encouraged by including the correct use of tendering procedures as either a minimum condition or a performance-based criterion (see Chapter 2).

When a successful bidder has been identified for a particular project, the local government will need to negotiate a contract with them. Most countries will have a standardized form of contract, and the LDP should promote its use. However, particular attention needs to be paid to the following issues:

- Contracts should clearly specify contractor obligations;
- Contracts should include a calendar for scheme implementation, along with sanctions in the event of non-compliance;

Box 80: Private sector capacity building in Tanzania

In most LDP programmes local authorities are encouraged to use the private sector as much as possible for the actual production of services. This means that local authorities are generally required to work in new ways: rather than using permanently employed technical staff and their own equipment to carry out all works themselves, they are now required to advertise work, tender for, select and supervise contractors. This often requires capacity building of local authorities through training of local government tender boards, and training local authority engineering departments in the preparation of bid documents, supervision of contractors, etc.

However, in some cases it may also necessary to provide more direct support to the private sector to enable it to respond to such new working modalities and opportunities. In Tanzania, for instance, it was noted that the private sector in the six rural districts of Mwanza was very weak, and that the only contractors able to respond to tenders were based in Dar es Salaam, some 1,000 km away. The LDP therefore undertook the following measures:

- Private contractors were trained to prepare bids in response to tenders put out by the local authorities;
- The programme guaranteed a bank loan to eight local contractors to enable them to buy the equipment needed for labour-based road rehabilitation work;
- These contractors were subsequently guaranteed a certain amount of work from the local authorities each year, funded from the LDP as a conditional grant for road rehabilitation, which would enable them to repay these loans.

The central government has since introduced a revenue-sharing arrangement whereby local authorities receive a share of a nationally collected fuel tax. These funds are allocated to local authorities but earmarked for road maintenance. This new fiscal transfer to local authorities has created even more work for the private contractors, who (in Mwanza at least) have now proved to the local authorities that they can deliver quality work on time. Moreover, the use of labour-based technologies has meant that a significant share of the funds is directly injected into the local economy and local communities as wages. Without the initial, fairly intensive support provided by the LDP, the private sector would not have been able to respond to the new market conditions and opportunities.

- There should be a disbursement schedule, along with a defect liability clause whereby a given percentage of the value of the contract is retained for a certain period after project completion;
- Contracts should spell out clear procedures for the arbitration of any disputes between clients and contractors, as well as specifying who should arbitrate (prior to any dispute going to the courts).

If standard contracts do not cover these items, it may be necessary to introduce simple new formats for tendering, bid evaluation and contracting.

b. Shopping

Procurement procedures may allow for shopping below certain cost thresholds, and for certain items such as equipment, supplies, off-the-shelf products, etc. Shopping involves comparing price quotations obtained from a minimum number of potential suppliers and – in principle – choosing the lowest price. This is less time-consuming and less transaction costly than competitive bidding, but because it is potentially easier to manipulate, should be limited to lower-value items.

3. Delegated or direct implementation

This, the second major option for LG asset production, can be broken down into two sub-options:

- Delegating production or implementation responsibilities to lower-level local bodies (wards, village councils or committees, etc.) or community-based or user groups (parent-teacher committees, water user groups, etc.), which often represent the eventual asset owners. This may also be seen as a form of delegated procurement;
- Direct implementation arrangements, whereby an executive agency, such as the sector department of the local government manages asset production through force account procedures (*en régie*, as it is termed in francophone systems).

Given that direct implementation or force account arrangements for LG investments are rarely used today, most of this section is concerned with the delegated form of implementation, with which some LDPs have gained considerable experience (most notably Nepal and Bangladesh). This will be referred to as community-based implementation or production, even when user groups or lower-level local bodies are involved.

Regulations

When considering delegated implementation arrangements, one of the first issues to arise is the existence of regulations governing such arrangements. Where these exist, LDPs would be expected to base their procedures on what is officially sanctioned. However, experience has shown that laws and regulations rarely cover such arrangements in any detail, and that even when they do (as in the case from Nepal illustrated in Box 81), they may be inadequate and require strengthening through the introduction of LDP-specific procedures (seen as policy pilots). Where regulations concerning community-based or user-group management of implementation are few or non-existent, LDPs will probably need to establish clear guidelines to enhance accountability and increase transparency.

Delegated implementation – considerations

Under delegated community-based arrangements, implementation is usually managed by a project management or implementation committee made up of locally elected or designated community representatives. Such committees are responsible for all procurement activities (hiring skilled labour, purchasing cement and other materials), organizing work groups and keeping accounts.

Box 81: Official regulations for user committee implementation of investments in Nepal

The Local Self-Governance Act (LSGA) and related regulations in Nepal not only sanction (and encourage) recourse to delegated implementation of LG investments by user committees (UCs), but also include a number of provisions relating to UCs and the ways in which they are to produce assets:

- Membership rules stipulating certain conditions, such as the requirement for at least 30% of UC members to be women, or preventing elected local government officials from holding the position of UC chairpersons, etc.;
- Guidelines and standard formats for contractual agreements between LGs and UCs;
- Financial management and reporting requirements;
- Technical supervision arrangements;
- Operations and maintenance responsibilities; etc.

However, despite the apparent comprehensiveness of the regulatory framework in Nepal, the UNCDF LDP has found that UC management of implementation is often less than transparent. As a result, the project has introduced more rigorous social audit procedures into UC implementation arrangements, insisting on project signboards, project books and regular meetings for all community members (see Chapter 4.B for more details).

Community-based implementation can offer a number of potential advantages:

- More efficient and transparent procurement of materials and services. However, experience in Nepal has clearly shown that this does not inevitably flow from community-based implementation arrangements, and that it may be necessary to introduce robust procedures to enhance accountability and transparency;
- Increased community-level ownership of projects, with a greater likelihood of good quality works (as demonstrated in Bangladesh; see Box 74), full mobilization of local contributions and effective operations and maintenance;
- Increased local control over project implementation;
- This may be the only feasible way of producing assets in very remote areas, where contractors are either absent or unwilling to bid. Given that poverty and remoteness are often closely correlated, the community-based option may thus be an effective way of contributing towards poverty reduction among the poorest;
- Again, community-based implementation may be the only real option for very small-scale projects of limited technical complexity, for which contractors may be unwilling to submit bids (constructing community halls, establishing simple water supply systems, etc.).

There are, however, also constraints and disadvantages to community-based implementation:

- Community-level project implementation committees need a considerable amount of backstopping and capacity building from local government or other sources, and this can add substantially to the transaction costs of community-based implementation. Some provision for technical support and monitoring will need to be made, whatever the circumstances under which scheme implementation is managed by community-based groups. Unless such technical support is provided, implementation may result in works of low quality;
- (Potential) contractors or suppliers may be based far away, entailing high transaction costs for the community in dealing with them;
- The disbursement process may be lengthened, causing delays and complications, if LDP funds are disbursed into LG accounts (where they are either directly managed by LGs themselves or on their behalf by national Treasury Offices) and then transferred to community-level management committees for onward disbursement;
- If community-based implementation is known or assumed to be the only implementation option, it is likely to generate a bias towards smaller and simpler projects in the LPP itself, rather than more strategic projects that involve and impact upon a larger, more diffuse 'community'. By nature, community-based arrangements for asset production are unsuited to technically complex projects like bridges, for example, and reliance on them for implementing such projects is likely to lead to poor quality or deficient assets;
- Community-level management committees will usually need to acquire legal status in order to enter into contracts with suppliers and service providers, or even receive funds from local government. In the case of Nepal, where user committee scheme implementation is provided for in the Local Self-Governance Act, this is not an issue; in other contexts, however, this matter would require some attention.

Where the sum of these problems militates against the full community-based implementation option, communities can play a halfway role, acting on behalf of local government as monitors of implementation performance (see below).

A final cautionary note about community-based implementation arrangements: where this is the dominant or preferred form of asset production on the part of local government (as in Nepal or Bangladesh), experience has shown that great care needs to be taken to ensure that a category of 'professional' community-based implementation groups does not emerge. This kind of group not only offers none of the potential advantages of the community-based implementation option, but is also not subject to any of the rigours of private sector procurement procedures.

A short note on direct execution (force account)

A final implementation option is the force account, whereby local government or one of its departments, such as public works, itself constructs or installs infrastructure. This has generally proved to be an unsatisfactory arrangement, largely because the force account mode of implementation rarely enjoys the incentives for efficient performance governing private sector delivery; all too often construction timetables and budgets are overrun, the quality of work falls below acceptable standards and there is little accountability. However, in the rare event of there being no private contractors, force accounts may be the only option available. Furthermore, force accounts may be suitable for the implementation of small or scattered works unlikely to attract bidders, although this problem can be partially addressed by lumping together small projects (see above).

D. Arrangements for Technical Support, Supervision and Oversight

The overview of implementation tasks indicates that two types of technical support are required, for:

- Detailed design and specifications of the investment scheme;
- Supervision and monitoring.

1. Detailed design and specifications

Although the LPP will have identified an investment profile outlining the main parameters of the investment, investment structures need to be designed in sufficient detail to be practicable, and to sound and appropriate technical standards:

- Standard designs for social facilities such as schoolrooms, health posts, wells, etc. are usually issued by parent ministries, although they may need to be compiled and made available, and may require some local adaptation for climate, culture, availability of materials, etc. The LDP could usefully support compilation of these standard designs (whether issued by line ministries or NGOs) and ensure that they are available locally. However, as Box 82 shows, it may be necessary to develop a range of templates covering as wide a variety of situations as possible.
- On the other hand, while standard designs and templates may be of considerable assistance to local technicians, there is also a danger that the norms used may not be the most appropriate. In this case it is important to ensure that such standards are not blindly accepted and used, and local governments should be encouraged to raise such issues when they know that national norms may be unsuitable;
- Site-specific investments (irrigation schemes, bridges etc.) require surveys, tailor-made designs and local consultation by local technicians or engineers (see Box 82).

2. Supervision and monitoring

Once a contractor has been selected through the tendering/bidding process, or a community-based group chosen to manage implementation, the investment owner (i.e. the LG unit financing the investment) will need to ensure that any works undertaken are adequately supervised. This is often referred to as contract management. The aim is to ensure that designs are respected or adjusted appropriately to allow for unforeseen circumstances, and that the materials and workmanship are of acceptable quality (to offset any temptation for the contractor to skimp). Experience has shown that lack of adequate supervision can compromise the quality of completed works. This consideration applies regardless of the implementation option, but is perhaps particularly pertinent in the case of community-based or user-group implementation

Box 82: Templates in Cambodia

"The standard designs for projects have widespread support. That said, more templates with greater variety are needed to suit local material availability, soil conditions, and hydraulic conditions. Roads and schools are standard enough and so have few problems, but irrigation structures vary a great deal. Although there already exists a very impressive set of templates, in terms of both quality and variety, there is a need for more.

The need arises mainly because technicians don't know how to vary templates and re-work the calculations. Only two or three really understand them and some of the rest even have a hard time reading plans. So they either apply them as is, which may not be the right thing to do if they should be adjusted, or make mistakes when adjusting. This implies that further training is needed. It is clear, however, that no amount of on-the-job training will turn them into fully qualified design engineers."

Source: CARERE Final Evaluation

3. Sources of technical expertise for design and supervision

As the investment owner, local government can source this support in a number of ways:

a. **(Local) government technical staff** By calling upon local government technical staff (such as engineers, who are generally employed by higher tiers of the LG system, like districts in Uganda or DDCs in Nepal) or line department staff (engineers from the local branch of the Public Works Department or surveyors and engineers from the nearest branch of the Roads Department, for example) to provide design input and supervise contractors or community-based groups working on both higher- and lower-tier projects. Although this is an attractive option because it is generally cheaper, it does have certain drawbacks:

- It assumes that there are enough competent engineers available within the system, and that they can be and are assigned to supervise contractors working for lower-tier LGs (such as sub-counties in Uganda). This is not always the case, as demonstrated by the example of the DDP in Uganda in Box 83;
- There are often problems of costs and incentives in providing this support, particularly in countries where technical staff are not directly under the control of the LG owner (as in most francophone countries, where there is a clear demarcation between deconcentrated line departments and commune authorities). In some cases (such as Mali) it has been possible for local governments, as investment owners, to offset this kind of problem by paying for the services of technical staff, or at least covering their travel costs to the site, but government regulations in other countries such as Bangladesh forbid such payments.

b. **Private (or NGO) services:** By hiring private sector consultants (engineers, etc.) or even specialist NGOs for design work and supervision of contractors. This is often the only real option available, as is the case for rural communes in Mali or *communautés rurales* in Senegal, which cannot expect automatic assistance from state technical services.

Box 83: Technical supervision in Uganda

The 1998 Evaluation Review of the DDP showed that while district projects were generally well supervised, the bulk of sub-county and parish investments had never been visited by appropriate technical staff. District officials everywhere said that this was because they were under-resourced. In some districts, technical staff were not prepared to offer technical services unless these entirely funded by the sub-counties, even though the districts have some responsibilities for technical supervision.

Even then, there may be practical difficulties:

- With small-scale infrastructure projects, the general practice of paying supervising engineers a percentage of the total value of an investment may not be enough of an incentive. It may be necessary to have a sliding scale so that supervisors receive a higher percentage on smaller projects than on larger ones, although this will obviously increase costs;
- There may be very few consulting engineers in isolated rural areas. As a result, the few that are available can rapidly become over-employed, resulting in poor supervision and thus lower quality works and projects.

c. **Community oversight:** By fostering community-level oversight in the form of appointed superintendents or through local project management committees. This option is frequently used in LDPs, and does ensure that there is basic supervision of contractors by those who will be the immediate beneficiaries of such schemes. However, this type of local oversight is unlikely to be sufficiently technical, and should therefore be seen as a valuable complement to more rigorous technical supervision by specialists.

d. **PMUs:** In Tanzania and Ethiopia, the project management units (PMUs) of some first generation LDPs have also provided local government with technical support. However, this has rightly been the exception rather than the rule, given that recourse to project-linked and subsidized technical assistance is entirely unsustainable. Overall experience has shown that this is not only a very costly and inefficient use of scarce human resources, but that it can also undermine the use of more appropriate sources of technical expertise. As a result, many PMUs in second and third generation LDPs have deliberately not included staff with an engineering background, thus precluding use of the PMU as a technical service provider to local governments.

4. Funding of technical support to implementation

The preceding sub-sections sketched out the pros and cons of different technical support options. The technical service provider usually requires payment, and most LDPs allow a small part of the block grant or individual scheme budgets to be used to meet such 'servicing' costs (usually under 10%), since they are legitimate 'software' components of the overall investment costs.

Box 84: LDP experiences in funding technical servicing of investments

- *In northern Mali,* individual communes hire consulting engineering or technical firms (*bureaux d'études*) on an annual basis to handle technical inputs for investments undertaken during the year. The communes use between 5% to 10% of their own budget to pay for these services.
- *In Viet Nam*, technical supervision of investment implementation was outsourced to local consultants on a scheme-by-scheme basis, with payments calculated as a varying percentage of the total value of each scheme, in accordance with government regulations (3% for large projects and 5% for smaller ones).
- *In Nepal*, DDCs have used the agreed 6% of their LDP block grants to hire full-time technicians and overseers to support design and supervision.

E. Investment Co-Financing and Financial Management

1. Community contributions

In most LDPs, communities are expected to make some kind of direct contribution to the building of infrastructure or installation of equipment. This contribution may often be in kind, through the provision of labour. Experience has shown that this is not always without problems or complications:

- There is usually a need to ensure that community labour is adequately articulated with contractor inputs. To avoid inconveniencing contractors, LDPs generally encourage community-mobilized labour contributions to discrete parts of a project, such as collecting gravel and sand (to be used by the contractor for construction) prior to commencement of any works, or building a wall around a school while the contractor builds the school itself. In general, experience has shown that it is best to avoid the need for contractors to depend on community-mobilized labour;
- Problems and conflicts over quality may arise when community labour is responsible for collecting or contributing materials such as sand, gravel, mud bricks, etc.;
- Finally, it is not always easy to verify whether community contributions in kind are of the pre-agreed level, especially when this is expressed as a fixed percentage of the value of an investment. Calculating the monetized value of in-kind contributions may be subject to dispute.

The issue of community and local government contributions to the costs of project implementation is dealt with in the finance section of these guidelines, in Chapter II.F.

2. Disbursements

Depending on local circumstances and existing Treasury regulations, it may be necessary for LDPs to introduce simple procedures for ensuring that any payment certificates issued by the project owner are accompanied by relevant documentation, including the technical supervisor's appraisal of scheme implementation progress. This is to ensure that contractors or community-based implementation committees are only paid as and when they meet their contractual obligations, or demonstrate clear progress, and to

Box 85: Disbursement procedures for user committee implementation

DFDP in Nepal provides DDCs with detailed guidelines on how disbursements are to be made to user committees (UCs) responsible for scheme implementation:

- Initial advances to the UC are limited to 40% of the total value of the scheme. This allows the UC to begin scheme implementation;
- To obtain a second advance, the UC should submit its financial reports (and supporting documentation of invoices, etc.) to the DDC, accounting for at least 75% of the value of the initial advance. In addition, DDC technical staff should sign off to the effect that work is progressing and social audit procedures have been respected by the UC. If the UC financial report is in order and DDC technical staff have signed off, the DDC can make a second advance of up to 40% of the total value of the scheme in question
- No further payments are made to the UC until the works have been successfully completed. At scheme completion, DDC technical staff should carry out a final inspection and ensure that social audit procedures have been respected by the UC. Following this final inspection, the DDC can disburse the outstanding balance to the UC (generally, 20% of scheme value).

avoid unjustified disbursements. Box 85 provides an illustration of LDP-promoted disbursement guidelines for community-based implementation.

3. Commissioning works and retention periods

On project completion, some kind of official inspection, commissioning and handover usually needs to take place. This should ensure that the infrastructure or installation is as designed and that there are no immediately obvious faults. Final inspection is generally done by local government officials, community representatives, technical supervisors and, in the case of contractor implementation, contractors. The defect liability/ retention period begins once the installation has been inspected.

Experience has shown that the defect liability/retention period may not always be accorded the importance it deserves. It usually last for 12 months, depending on the infrastructure/installation in question. Given the problems that can be encountered in ensuring adequate technical supervision of contractors, the retention period does allow for any serious defects to be detected, in which case it is the responsibility of the contractor to repair or correct them. It is important that this is enforced, as treating the retention period as a formality can result in subsequent O&M problems. Ways need to be found to encourage local authorities to monitor the quality of any schemes during the retention period.

F. Postscript: Malpractice and Implementation

This section deals briefly with issues of corruption in the procurement of public goods and services. As illustrated in Box 86, procurement is often seen as being particularly prone to abuse, malpractice and corruption.

Box 86: Procurement and corruption

Few activities create greater temptations or offer more opportunities for corruption than public sector procurement. Every level of government and every kind of government organization purchases goods and services, often in quantities and for sums that defy comprehension. It may be questioned whether this really is the most common form of public corruption, but without doubt it is alarmingly widespread and almost certainly the most publicized. Hardly a day goes by without the revelation of another major scandal in public procurement somewhere in the world… It is the source of astronomical waste in public expenditure, estimated in some cases to amount to as much as 30 percent or more of total procurement costs. Regrettably, however, it is more talked about than acted upon.

Source: Transparency International, 2001

This is not something that is alien to LDPs; indeed, given that LG officials (both elected and appointed) in LDCs are usually some of the worst paid public servants in the world, it is hardly surprising that opportunities for malpractice and corruption are frequently seized upon (or created by contractors). As far as possible, these opportunities need to be minimized.

Malpractice can occur at two principal points in the implementation process:

1. Prior to and during the award of contracts

Before or as contracts are awarded, procuring agencies may:

- Tailor specifications to favour particular suppliers, so that only favoured contractors are able to meet the conditions of the tender;
- Break up a large project (subject to more stringent procurement procedures) into a series of smaller projects (for which procedures are less rigorous);
- Restrict information about contracting opportunities by limiting tender advertisements to minimal procedural requirements (and favouring preferred bidders by informing them beforehand);
- Use an excuse to award to a single contractor without competition;
- Breach the confidentiality of suppliers' offers and share knowledge of competitors' bids with favoured contractors;
- Disqualify potential suppliers through improper pre-qualification procedures or excessive bidding costs;
- Manipulate the bid evaluation process in ways that favour certain contractors over others;
- Take bribes.

At the same time, potential bidders may:

- Collude with other bidders to fix bid prices;

- Collude to establish a system in which bidders take it in turns not to participate or deliberately submit unacceptable or unsuitable offers;
- promote discriminatory technical standards;
- interfere improperly in the work of evaluators;
- offer bribes.

The likelihood of bidder malpractice is probably higher in situations where they are relatively few in number, as is often the case in remoter rural areas.

2. During actual works and installation:

Some of the most serious and costly forms of corruption may take place after contracts have been awarded. It is then, during the implementation phase, that the purchaser of the goods or services may:

- Fail to enforce quality, quantity or other performance standards of the contract;
- Delay payments to contractors in order to extract bribes;
- Divert delivered goods for resale or for private use;
- Demand other private benefits (kickbacks, trips, school tuition fees for children).

For their part, unscrupulous contractors or suppliers may:

- Falsify quality or standards certificates;
- Over- or under-invoice;
- Pay bribes to contract supervisors.

If the sellers have paid bribes or offered unrealistically low bid prices in order to win the contract, their opportunities to recover these costs arise during contract performance. Whichever side it is initiated by, corruption requires either active cooperation and complicity, or negligence in the performance of duties by the other party in order to succeed. Unscrupulous suppliers may substitute lower quality products than were originally required or offered in their bid, falsify the quantities of goods or services delivered when they submit claims for payment, and then pay more bribes to contract supervisors to induce them to overlook discrepancies. In addition to accepting bribes and failing to enforce quality and performance standards, buyers may divert delivered goods and services for their private use or for resale.

All of this highlights the need to maximize transparency and oversight in the procurement process. However, LDPs should also be careful not to promote or adopt procedures that are too complex, as they will only add to the transaction costs associated with investment implementation.

Box 87: Corruption in local governments in Uganda

This issue was one of the main topics for the Uganda Local Government Association Annual General Meeting and the Consultative Group Meeting between government and donors.

Prevention: The legal, policy and regulatory framework in any country should support the prevention of corruption. In the context of these laws, policies and regulations, there should be true democratic governance through open and free elections, competition for public offices and open communication between men and women in communities and their leaders, whether elected, selected or appointed. Local governance mechanisms to promote the prevention of corruption could include:

- **Transparency through open information sharing:** Under the UNCDF-supported DDP and replicated through the WB-funded LGDP, allocations to sub-counties were displayed on the walls of the sub-county office for all to see. This approach to information sharing could be expanded to the publication of budgets and names of contractors working on a village project, sharing lists of projects being implemented in a sub-county, parish or village, and disaggregation of data in service delivery and usage so that it is known who is using which services. Community members will be better able to understand and communicate with their leaders when they know who is organizing a project, when it is supposed to be completed or what its budget is.
- **Even with budget meetings, the district planning and budgeting process essentially remains top-down,** with the district government replacing central government in the eyes of villages, parishes and sub-counties. District budgets are also gender blind, as they take no account of the different project impacts on men and women. In Uganda, a set of harmonized participatory planning guides is currently being widely disseminated to encourage community members to participate more actively in making decisions that affect their communities. The processes to ensure community participation in decision-making are not yet fully in place, but should ideally provide communities with the power to determine their priorities and voice them in the district planning and budgeting process.
- **Mentoring**: Often, men and women at higher levels of local government receive substantial support in capacity building and re-tooling through development assistance programmes. However, this capacity is frequently not passed on to those in lower levels of local government or to members of the community. In such cases higher levels of local government essentially become mini-power centres, centralizing their own power base
- **Following established standards:** In Uganda, the Constitution, Local Government Act, Local Government Accounting and Financial Regulations and recently established Local Government Charter of Accountability and Ethical Code of Conduct provide a solid and clear legal and regulatory framework to prevent corruption at the local government level. Men and women in communities should be equally aware of their rights and responsibilities under these regulations, so that they can hold their public servants accountable.

Investigation: The auditing functions of local governments need to be enhanced to enable them to detect and eradicate corruption. Internal auditing processes should allow them to identify problems at an early stage and ensure that local communities are justly served in the development process. Communities should also be made aware of their own role in this process: as development beneficiaries they are the clients, and have the right and duty to hold their elected and technical officials to their leadership responsibilities. In this regard, CSOs play an important role in keeping the public informed and acting as their advocates. The auditing functions at local and central levels cannot be over-emphasized. Although donor support for auditing is not always popular, the viability of the local government system will be undermined without a strong and well-supported audit system.

Punishment/sanctions: Finally, when corruption does occur, those who are found guilty should be punished as allowed by law. During the LRE Best Practices workshops in Uganda it was recommended that the names and pictures of prominent tax defaulters should be published in the paper. This recommendation was widely accepted, and could be applied in cases of officials who are found to be corrupt. However, care should be taken to protect the human rights of the accused, so that the media does not publish unproven allegations. Far from limiting corruption, the tendency of the media to vilify the 'potentially' corrupt may actually have the opposite effect.

Part IV. Operations and Maintenance

A. Context

1. O&M as key to unlocking infrastructure benefits and services

The purpose of infrastructure investments is to yield social and economic benefits or services to users. These include health services from clinics, education from schools, drinking water from wells, transport access from roads, etc.

While these investments and the assets they produce are usually necessary to generate such service benefits, they are not sufficient in themselves: for infrastructure assets to generate benefits or services of value to users, they must also be adequately operated and maintained on an ongoing basis.

The considerations listed in Box 88 underscore the importance of ensuring appropriate operations and maintenance and a sound asset management strategy and plan (see Box 88).

2. Typical O&M problems and their causes

LDCs are littered with examples of malfunctioning and poorly maintained infrastructure and installations that fail to generate the intended service benefits. This situation may be explained by one or more of the following factors:

a. Inappropriate institutional arrangements. It is not unusual for insufficient thought to be given to determining in advance exactly who is to be responsible for operations and maintenance after investments have been implemented. This invariably leads to one of two mistakes:

   - Either it is assumed that the community of users benefiting from the investment will have both the interest and ability to assume O&M responsibilities without additional support; or, conversely,

Box 88: The importance of sound asset management

- All assets deteriorate
- Neglect leads to costlier repairs
- When signs appear, the damage has already set in
- Asset performance drops
- Services from assets become unreliable
- Public risks and health hazards increase
- Livelihoods are affected and people suffer unnecessary hardship
- Dissatisfaction with the authority providing the asset grows

Adapted from Asia Pacific Institute for Good Asset Management brochure – see www.apigam.com

- These end users are simply sidestepped because it is thought that they are incapable of assuming the responsibility and authority for O&M, which is instead entrusted to an agency with no real stake in the investment.

b. **Inadequate attention to long-term financing of recurrent O&M requirements.** This may be due to:

- Poor initial planning of investments or lack of integration with recurrent budgeting, resulting in infrastructure development without regard to recurrent cost implications (teachers for schools, nurses for health posts, etc.);
- This, in turn, may be linked to a common **tendency** to spend limited available resources on new capital rather than on maintenance. This may partly explained by:
  - The potential for rent-seeking opportunities (e.g. kickbacks from contractors);
  - The greater political visibility for local politicians (universally) inherent in the delivery of infrastructure projects;
  - Reluctance on the part of donors to allocate sufficient resources to maintenance (partly because they are understandably unwilling to subsidize O&M).

c. **Poor construction quality or inappropriate design.** Some investments may simply be inherently hard to operate and maintain satisfactorily, because:

- They may be badly designed or wrongly sited, often due to inadequate local consultation in the planning and design phase;
- They may be poorly constructed, often a result of inadequate technical supervision and/or local monitoring of construction work.

3. Rationale for LDPs: a reminder

Without minimizing the O&M problems faced in LDPs, it is worth recalling that some of their underlying causes will hopefully be addressed through the LDP strategy, by:

a. **Working through local governments:** In contrast to approaches that deliver infrastructure through NGOs or community groups, local governments:

- Usually have legally mandated service responsibilities;
- Are subject to more nagging pressure by their constituents if there are problems with services; (See also Chapter I.A)

b. **Local planning procedures:** LPPs aim to:

- Secure local input on design, siting, etc;
- Ensure that no investments are approved without commitments for recurrent financing and O&M arrangements by appropriate community groups, the LG or line departments.

Of course, none of this offers any real guarantee that sound operations and maintenance will be forthcoming.

iv. The challenge

For LDPs the challenge is to identify and pilot innovative ways of encouraging LGs and other local stakeholders to take O&M seriously. Unless adequate O&M arrangements are made and implemented, public goods delivered by local government serve little purpose and/or deteriorate rapidly; without adequate O&M, there can be little in the way of sustainable benefits. It has to be said that in this arena, experience to date has not been very positive, and there remains considerable room for improvement (see Box 89).

Box 89: Some of the problems experienced

Cambodia: Project maintenance is a perennial problem for all rural infrastructures, and this is especially true in Cambodia. The evaluation team visited many projects that had been constructed to an acceptable standard, but were deteriorating after only one or two years without adequate maintenance. Roads become impassable after a couple of rainy seasons, fences around ponds fall down, and water pumps break.

From: CARERE - Final Evaluation Report (2000).

Malawi: "The maintenance systems for boreholes and schools were partly functional. In either case, the committees have special funds created with the purpose of facilitating maintenance processes if need arises. The problem, however, mainly for boreholes, is that the committees never collect adequate funds to ensure prompt maintenance in the event of a breakdown. The funds are often inadequate especially in cases of frequent borehole breakdowns arising from overuse. Spare parts are very expensive and as a result, the committees tend to resort to repairing old spare parts, which often leads to persistent breakdowns. The other problem is that there is widespread shortage of local expertise in borehole repair and maintenance. The deficit is pronounced because only a few people are trained in the basic repair and maintenance skills upon project completion."

From: Malawi Decentralization Impact Assessment Report (2002)

Ethiopia: within less than a year two of four taps at one water standpipe facility had been broken, reducing by half water access and increasing waiting time, to the evident frustration of several women standing by; but after several months no action to replace them had been taken. Water users claimed that no one in particular was responsible for maintaining the facility, and that no cost-recovery mechanism had ever been discussed whereby new taps might have been purchased; nor had they any clear idea of where taps might be bought.

Observations from: Woreda Development Fund Technical Review Mission (2000)

B. Operations and Maintenance Activities

1. Overview

Successful O&M requires an agency (community group, LG or department) to assume responsibility for a diverse range of activities:

- General oversight of use of the infrastructure/asset in question, assuming responsibility for its condition and usefulness, and being answerable to users;
- Managing any resource mobilization needed for O&M, which may involve:
  - Collecting and accounting for user fees;
  - Management of cooperative labour efforts (for water supply systems, irrigation schemes, cleaning road drains, etc.);
- Managing any periodic procurement related to the asset (purchase of inputs for irrigation schemes, tubewell spares, cost recovery drug provision, etc.);
- Ensuring that previously stated operational commitments are respected (e.g. Ministry of Education commitments to provide teaching staff for schools);
- Devising and enforcing rules regarding access to the asset (management of common property resources such as rangeland enclosures, access times for people and livestock at water points, etc.).
- Ensuring that the asset is properly maintained.

2. Institutional management options for O&M

There are several institutional options for ensuring O&M:

Community-based or user-group management

As a general principle, direct responsibility for operational management of any community-based infrastructure/asset should be delegated to the users to the greatest extent possible. However, this option essentially applies to community assets with a reasonably small number of users from a limited geographic area, and for which no significant government support is required (e.g. health or teaching staff).

Whenever feasible, LDPs should seek to promote (and strengthen the capacity of) operational management of community-based facilities by user groups. Table 27 illustrates this kind of arrangement.

The community-based or user-group management option is generally limited to facilities where:

- Users are relatively few and easily identifiable;
- Local cost recovery is likely to be sufficient to satisfy operational needs (salaries for part-time staff, maintenance, repairs, etc.);
- Operational costs are minimal;
- Management needs are relatively simple;

Table 27: Examples of operational management of facilities by user groups

Type of facility	Management unit	Possible types of support
Hand-dug concrete well	Well management committee composed of representatives of well users	Technical training for periodic 'curing' of wells; training in appropriate hygiene measures
Water supply system using small diesel pump	Water management committee composed of representatives of water users	Technical training on simple pump maintenance; training in cost recovery methods; training in financial management
Small-scale gravity-fed irrigation scheme	Irrigation committee composed of representatives of users	Training in basic water control and sharing, periodic reconstruction of intake diversion structures, canal cleaning and repair of structures and embankments
Market sheds and booths	Market management committee composed of user representatives	Training in market management and financial management
Community corn-grinding mill	Mill management committee composed of community representatives	Training in simple maintenance, cost recovery and financial management

- There is an abundance of local management experience.

When such investments are identified and selected, the upstream planning process will need to consider suitable operational management arrangements and make provision for accompanying capacity building efforts and other support. In much the same way as most LDP funding facilities include provision for the payment of consultancy services (for design, costing, tendering and supervision), it may also be useful to include provision for funding of capacity building aimed at improving the operations and maintenance of infrastructure assets.

In promoting community-based or user-group responsibilities for O&M, there are a number of key issues that may need particular attention. These are summarized in Table 28.

Local government or sector department management

Clearly, not all types of facility/asset lend themselves to user-group management. Responsibility for operational management will need to be situated elsewhere if (i) local cost recovery is unlikely to cover all operational costs; (ii) cost recovery is extremely difficult to manage; (iii) the user community is very large and geographically diffuse; or (iv) technical aspects of management are likely to be beyond local capacity. In such cases this could be at local government level or with sector departments. Table 28 provides some examples of the kinds of facility that are usually best managed by local government or sector departments (see Table 29).

Table 28: Issues in community-based O&M

Issues	Remarks
Representation in O&M arrangements	This can be complex and will vary considerably depending on the type of investment. For example, customary authorities may need to be represented on a small-scale irrigation scheme, in order to take account of land tenure and labour mobilization issues.
Appropriate management structures for O&M	There is a tendency for LDPs (or LGs) to promote committees at all levels, regardless of the management issues. In some cases, it may not be necessary to establish committees, but simply to ensure that one or more individuals take responsibility for dealing with O&M. A shallow, hand-dug well might be an example of the kind of investment that does not need a formalized committee for successful O&M.
Appropriate management practices	O&M for amenities such as hand pumps has certain financial implications, as funds will be needed to buy spare parts. In such cases it is worth keeping things as simple as possible – there may be no need to use sophisticated and costly methods. Users may not be required to make regular monthly contributions to ensure O&M, but simply be prepared to contribute funds as and when necessary.
Appropriate oversight	A key issue in community-level O&M involving financial management accountability is the extent to which local 'managers' are subject to local oversight, which may come from both the local community and LGs.

Table 29: Examples of operational management of facilities by local government or sector department

Type of facility	Management unit	Comments
Primary or secondary school	LG Education Department or Ministry of Education	The recurrent costs associated with schools (mainly teachers' salaries) are likely to be relatively high; in addition, standards and curriculum cannot be set at community level
Health centre	LG Health Department or Ministry of Health	As above
Pedestrian suspension bridge	LG Public Works Department or Ministry of Transport	Suspension bridges are technically complex, their upkeep is usually well beyond local communities, and it is difficult (although not impossible) to charge user fees
Rural road	LG Public Works Department or Ministry of Transport	Roads do not lend themselves to community management – their user community is very large, cost recovery is difficult (though not impossible), and maintenance is both costly and sometimes technically demanding

Box 90: Maintenance planning in Viet Nam

The Rural Infrastructure Development Fund (RIDEF) project in Quang Nam and Da Nang Provinces has promoted maintenance planning in the 122 communes with which it works. *Rural Infrastructure Maintenance Guidelines*, a manual published by RIDEF, provides communes with a 6-step maintenance planning system (from infrastructure surveys to implementation), basic information on maintenance issues for generic types of infrastructure, and standard forms for monitoring maintenance. Maintenance planning has also been an important part of the RIDEF training package.

Given that these types of infrastructure asset will generally require local government or sector department management, firm commitments from the appropriate LG or sector departments to provide O&M should be secured during project planning. If these commitments are not forthcoming, then such projects should not be selected.

Outsourcing O&M: leasing and contracting arrangements

With certain assets that fall under the auspices of LG or sector departments, there may be scope to delegate responsibility for O&M to private organizations (for profit or not-for-profit). For example:

- In some cases, health facilities may be more efficiently managed by a specialist local NGO under a mutually agreed cost-recovery or cost-sharing formula;
- Economic infrastructures such as market facilities or ferry boats may be more efficiently run by a private operator, under a leasing arrangement. In so doing, this may also yield much greater revenues for the providing agency than direct management (innovations in more competitive market leasing in Uganda and Bangladesh are dramatic illustrations of this potential);
- The repair and maintenance of roads may be undertaken more efficiently by private contractors under a renewable performance-based contract, rather than by LG works departments.

Although it is still far from common, there have been a few cases of outsourcing in LDPs (one partially successful innovation in Senegal and one in Tanzania).

C. Future Directions for Operations and Maintenance

1. General considerations

In their efforts to promote proper maintenance of public infrastructure and assets, LDPs may need to explore some or all of the following issues:

- LG officials and staff are frequently unaware of what maintenance actually involves and how important it is. The very concept is often misunderstood, so that even technicians often classify rehabilitation or repair works as maintenance. Furthermore, few officials are aware of the opportunity costs of not providing for proper maintenance. These and other basic issues need to be flagged up and given serious consideration;

- While planning for new capital expenditure may be a routine and well understood element of regular planning, the same cannot be said of maintenance. Therefore, LDPs may need to introduce the idea of maintenance planning (see Box 90).

LDPs may need to consider specific capacity building efforts in the field of maintenance planning:

- LDPs will also need to consider ways of encouraging LGs to budget for the maintenance of facilities that they manage and operate. This should be made explicit, even though it is an integral part of maintenance planning. It should be noted that doing this implies that LDPs should not restrict themselves to support for capital expenditure budgeting, but also actively seek to improve the budgeting process for recurrent expenditure (see Box 91);
- Finally, it would seem worthwhile to explore the possibilities of providing incentives for maintenance. This can be done by including maintenance of public assets as one of the criteria by which LG performance is assessed, as is the case with the Uganda DDP. LGs demonstrating a genuine commitment to maintaining infrastructure then qualify for increases in their block grant allocations.

2. Timing: the problem and a possible solution

One of the practical problems faced by LDPs in addressing operations and maintenance issues is that the infrastructure assets put in place through UNCDF funding are often only completed in the second half of the LDP 'lifetime'. Such new infrastructure usually requires relatively little in the way of maintenance, and it may prove difficult to make maintenance a routine concern in the short time available (see Box 92).

Box 91: Simulating the budgetary implications of investments

For several LDPs in francophone West Africa (Mali, Senegal, Guinea, Benin), UNCDF has developed a simple software tool that allows local government officials to simulate or project the operations and maintenance cost implications of their infrastructure investments. Once this has been done, the tool compares projected operations and maintenance costs (as well as other expenditure items) with revenue projections. While the tool does not, of course, resolve the problem, it does have the virtue of improving the basis upon which investment decisions are made, and of encouraging greater realism. It also serves to highlight linkages between recurrent expenditure and capital budgets.

Box 92: Taking O&M seriously: a proposal

In order to make O&M a regular component of LG activities, it is suggested that LDPs do not wait for the infrastructure they fund to come on stream before promoting active maintenance. Instead, LDPs could encourage good O&M for pre-existing infrastructure, regardless of how this was financed. By addressing tangible O&M issues from the outset, there is greater likelihood that they will be institutionalized, and that the most appropriate ways of doing so will be identified.

Chapter 4: Accountability, Communications and Information

About this chapter

This Chapter outlines the various ways in which mechanisms for accountability can be promoted, to ensure that local PEM and infrastructure delivery is effective, efficient and equitable. It first deals with practical issues surrounding the physical availability of information in the rural local government setting. It then addresses the "downward" accountability challenge: first, by examining how local government-citizen accountability issues can vary by institutional context; and then by setting out the different ways by which information can be made more available to the public. It similarly addresses the challenge of ensuring "horizontal" accountability of the local executive branches to the local council, and how this too varies by context, and indicates some ways this relationship can be strengthened. In closing, it looks at issues in the accountability of local to central government.

Questions addressed

What is the relationship between accountability and information?

What are the main dimensions of accountability, and what are their underlying factors?

What are the typical information problems?

How can information be used to strengthen each of the three dimensions of accountability?

A. Context and Clarification

1. Accountability and information

Accountability lies at the heart of any improvements in local government delivery of public goods and services. Indeed, the entire rationale for the LDP strategy outlined in Chapter I is largely predicated on the greater potential for accountability in local government than in central agencies or NGOs (see Box 93).

This section examines how and why LDPs can and should work towards enhancing information flows at local and other levels as a way of increasing transparency and thus strengthening accountability. It should be noted, however, that as a key cross-cutting theme in local development, accountability is discussed throughout this guide.

Information on local government activities and resources (inputs, planning, budgeting, expenditure, etc.) is essential both at the local level – to inform local constituents and encourage meaningful public participation in the political process – and at the central level – to monitor and supervise local activities funded (at least partially) by central sources.

In addition to information about local government practice and performance, local citizens in LDCs often need to be informed about key aspects of the norms that apply to the conduct of local government (laws, regulations, etc.). Higher tiers of government, both central and local, are also accountable to lower tiers (providing backstopping and mentoring, for example); to strengthen this, lower tiers need information. The availability and communication of information should therefore be a central concern of LDPs.

LDPs consequently need to formulate and implement sustainable communication strategies aimed at ensuring that key stakeholders in local governance are informed or inform themselves about LG affairs. In formulating such a communications/information strategy, LDPs should consider some of the elements discussed in this section of the Guidelines.

In discussing information and accountability, it should be clear that LDPs can only exercise any real influence over the supply of information. They can do little about the demand for it, at least directly, although they can stimulate demand indirectly by making local government a more significant provider of public goods and services, and thus more likely to be scrutinized by local citizens.

Box 93: The two elements of accountability

- *Answerability*: the duty of local public officials or agents to inform and explain their actions to their principals (citizens, citizen representatives or other public officials acting on behalf of citizens);
- *Enforcement*: the capacity of principals to impose, or at least threaten, sanctions on power-holding agents that have failed to fulfil their public duties.

Box 94: According to the World Bank

"One key lesson learned everywhere is ... that the more that is known, and the more publicly it is known, the better the outcome of decentralization efforts is likely to be."

– Jennie Litvack, Junaid Ahmad & Richard Bird (1998), \ Rethinking decentralization in developing countries, World Bank Sectoral Studies Series.

"Many decentralized countries have weak or inadequate mechanisms for citizens and higher levels of government to monitor, evaluate, and support decentralization. While this does not prevent decentralization from achieving some of its goals, it does limit its ability to create large efficiency gains."

– World Bank (2001), Decentralization Briefing Notes.

For the purposes of achieving policy impact and encouraging replication, LDPs also need to ensure that the lessons learned during project implementation are communicated to national decision-makers. (See also Chapter I.B. on policy impact strategy).

Communications and information in LDPs is a challenge that should not be underestimated. Most LDPs are implemented in some of the poorest countries in the world, very often in the remotest and least developed parts of these countries. In such areas population densities can be very low, communications infrastructure minimal, literacy rates very low and civil society relatively inactive. How sustainable communications and information systems can be developed under such conditions is far from self-evident.

2. Dimensions of accountability and underlying factors

There are three main dimensions of accountability, which will be considered in this section.

- Downward accountability, of local government to citizens;
- Horizontal accountability within local government and administration;
- Upward accountability, of local government to central government;

Figure 9 illustrates these three dimensions of accountability. Although information and communications are key to each dimension of accountability, LDP experience also points to other important determinants, which will be introduced at the outset of each sub-section. First, however, a short note on information.

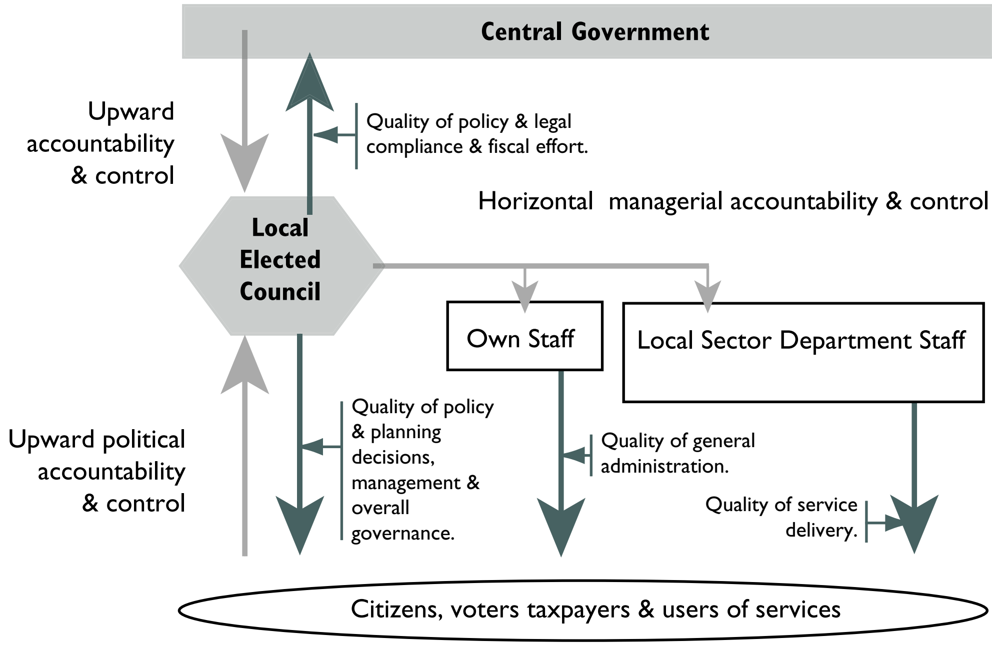
B. The Physical Availability of Information

Information obviously has to exist in some kind of enduring form so that citizens and central government can gain access to information about LG affairs, and for it to be made available. However, administrative and financial records in many LDCs are frequently scant and are often stored in ways that make them difficult to use (see Figure 9 and Box 95).

Therefore, LDPs may need to find ways to improve LG record keeping so that:

- Minutes are kept and filed;

Figure 9: Generic Local Government Accountability Mechanisms



Box 95: Record keeping in Africa

A recent study of record keeping in Africa* revealed that financial systems in many countries have deteriorated. Fundamental processes, such as record keeping, often do not exist. The study also showed that the connection between the breakdown of record systems and larger failures of financial management are rarely seen as significant. It suggested that greater success in ensuring financial accountability could be achieved by:

- Encouraging a culture of creating, maintaining and using records;
- Strengthening current legislation on records and drawing up legislation where it does not exist;
- Implementing records-related controls, and introducing or strengthening the record-keeping components of accounting and auditing standards;
- Developing financial management systems that explicitly incorporate record-keeping.

* *'Accountability and Public Sector Management: The Management of Financial Records in sub-Saharan Africa' report to the UK Department for International Development by Barata, K., Cain, P. and Thurston, A. (1998).*

- Budgets are filed;
- Records of tenders and bids are kept;
- Payment certificates are kept and filed;
- Accounts are kept and filed.

Such improvements could be introduced through capacity building and mentoring, and encouraged by the use of performance-based incentives.

It is paradoxical that the challenge of ensuring information is physically available is often compounded by the increasing extent to which LGs in LDCs use computers to store information. In addition to the routine technical problems associated with ICT in rural areas (power cuts, wear and tear, etc.), there are also issues related to the way that files are kept (or accidentally deleted) and to limited ICT user skills among LG staff (see Box 96).

Box 96: Electronic records and information

As computers are introduced, records are increasingly created, stored, transmitted and used in electronic form – often without any basic records management systems being put in place. Managing electronic records is a challenging task for the following reasons:

- Computer systems are complex, rapidly changing, fragile and often incompatible;
- The volume and types of electronic and paper records have vastly increased where computers have been introduced;
- Electronic records are easy to duplicate, alter and delete;
- Important records are often stored on individual computers and may not be available to other workers who need them;
- Protecting the security of records during storage and transmission may be difficult;
- Effective electronic filing systems may not have been developed or may not be used, making files difficult to locate;
- Related paper and electronic files may not be linked together to produce a complete record;
- Electronic records may be difficult to preserve because of rapid changes in computer hardware and software;
- Records management requirements such as retention periods and records disposal are not built into computer systems;
- Responsibilities for managing computer systems, records and data are often unclear and fragmented among programme, records management and technology staff;
- Staff may have little or no training in using computers and managing electronic records, and may not know where to go for help.

Adapted from: "Evidence-based Governance in the Electronic Age: A Summary of Key Policy Issues", International Records Management Trust, August 2002.

As a prelude to establishing mechanisms for ensuring that the public is kept informed, LDPs may need to address ICT-related issues through capacity building activities.

C. Downward Accountability

The dimension of accountability most often discussed is the accountability of elected local governments to the citizens, voters, and community members under their jurisdiction. Before outlining the options for improved information and communication to enhance this accountability, it is worth considering some of the general factors militating for or against effective downward accountability.

1. General factors affecting downward accountability

LDP experience suggests that several factors may strengthen or weaken downward accountability:

i. Overall statutory framework for downward accountability

The importance of this is self-evident, and LDPs face formidable challenges in countries where there is no formal provision for local government to account to its citizens. This remains the case in Mozambique, for example, where local administrations in rural areas are still not formally accountable to citizens for their actions. It is also true of Lao PDR, where one of the greatest challenges for the LDP is piloting greater citizen input into the district-level planning and budgeting process. In such circumstances, the role of information in enhancing accountability remains valid, but is clearly limited.

ii. Electoral mechanisms

Although participation in elections plays only a small part in ensuring accountability, electoral mechanisms can have a powerful effect on the downward accountability of local governments:

- On the whole, ward-based systems, where each ward within the local government area elects a member to represent it on the council, seem to offer more scope for downward accountability than party list or proportional representation systems, where councillors have no direct representative role for a particular community area. In a ward-based system, citizens are more likely to know who to complain to and may have a better chance of being able to do so in person; while in a party list system, elected officials tend to look 'upwards' to their party bureaucracy for instructions;

- The mode of election of the council chairperson (or mayor) is also a determinant of local government downward accountability. The two main options are direct election of the chairperson by all citizens or indirect election by councillors. Somewhat paradoxically, direct election can often result in an over-dominant chairperson or mayor who, because of the relative strength of their power base, overshadows and deters the other councillors, thereby discouraging real local democratic debate and activity and weakening accountability. The presence of national MPs as *ex officio* members of local bodies (as in Malawi and Nepal) can also overshadow local elected officials and undermine local accountability;

- A third issue related to the electoral mechanism is the extent to which special provisions are made to ensure the representation of women and other groups likely to be under-represented, who therefore find it difficult to make their voice heard. There is also the question of mechanisms for more transient groups, such as nomadic pastoralists or landless labourers, who may not normally qualify to vote due to their status as non-residents.

iii. Size of local government area: population and population density

In determining the area to be covered by a local government unit there is a trade-off to be made between economic or fiscal viability on the one hand (which suggests that larger units are preferable), and the viability of the political community on the other (which suggests that smaller units are advisable).

- Accountability would certainly seem to be a greater challenge for elected district officials in Malawi or Uganda, where most of the 500,000 or so people living in a district barely know the names of their representatives, than for elected commune officials in Mali or Cambodia, who usually have a constituent population of around 15,000, most of whom will know them by name, if not personally;
- Opportunities for regular interaction between elected officials and citizens are much greater in densely populated areas, especially urban ones, than in more sparsely populated rural areas where communication costs can be huge. Most rural people in Ethiopia live several hours' hard walk from the nearest road, while some communes in Mali may cover the area of a small European country, but only have around 10,000 inhabitants;
- However, in a social context where patron-client ties are especially strong, political sociologists suggest that proximity may itself have a perverse effect on accountability.

iv. Clarity of roles and functions

The clearer and better defined the service delivery roles of local government and roles of elected representatives, and the better these are known by the public, the greater the pressure for accountability. If these roles are unclear, as is often the case, it is obviously easier for elected officials to deflect complaints.

v. More systemic factors

Finally, pressure on downward accountability may be increased or decreased by other underlying contextual factors beyond the reach of decentralization policy makers, let alone LDP designers. These include:

- *The nature of the party political system.* Conventional wisdom suggests that multi-party politics makes for more downwardly accountable local government. The real issue, however, is the degree of choice and competition between candidates. A one-party system with competitive, locally managed pre-selection procedures may actually offer more real choice to voters than a multi-party system where local candidates are designated by party headquarters;
- *The strength of local civil society* (see Box 97). Conventional wisdom suggests that pressure for accountable local government should be stronger where local associational life is more developed. But the development of civil society (lobby and pressure groups) will itself be encouraged by the existence of viable local government that merits the time and trouble taken to lobby and pressure it. This point serves as a reminder that the dilemma between 'supporting local government' or 'supporting civil society' so often posited by donors may be false and politically naïve.

2. Reviewing statutory obligations

Whatever the national context, information and communication remain an important element of accountability. One of the first steps in drawing up a communications/information strategy for improved downward accountability is to analyze national legislation and regulations. Where there are national laws and regulations that apply to local government, they usually oblige LGs to make some kind of information available to the public or to guarantee local citizens access to LG documentation (see Box 98).

At the very least, therefore, LDPs should try to find ways of operationalizing statutory provisions regarding the availability of information (see Box 99).

Box 97: Civil society

The notion of civil society is one of the most frequently used (and abused) concepts in discussions about social and economic policy and, indirectly, poverty reduction.

Civil society is commonly defined as an intermediate realm between the State and the family. It is made up of organizations that enjoy a certain degree of autonomy, such as trade unions, professional or common interest associations (e.g. bar associations, chambers of commerce) and non-governmental organizations.

Strengthening civil society is often seen as a way of stimulating greater external pressure for policy/institutional reform, and ensuring greater accountability on the part of governments (both central and local). This is largely because civil society organizations facilitate collective representation and action, thus making the 'voice of the people' that much louder and more difficult to ignore.

However, recent thinking also stresses the ambiguities of civil society. While civil organizations can promote social inclusion and political participation, it is also true that they may favour social exclusion and increase political marginalization. It should also be noted that the notion of civil society organizations as open, interest-based bodies rather than specialist groupings is rather more problematic in rural areas.

Box 98: Regulations regarding public information

Mali: The Malian local government code (1997) includes the following provisions: (i) the annual budget session of the commune council is to be made open to the public; (ii) the minutes of all commune council meetings are to be posted in a public place; (iii) local citizens have the right to consult all commune council documentation.

Viet Nam: The Grassroots Democracy Decree (1998) stipulates that people's councils and committees at commune level shall: (i) make written documents available; (ii) ensure public posting of information at public offices and other centres; (iii) organize frequent meetings with local community and mass organizations; (iv) organize semi-annual report back and self-criticism meetings with the public. It should also be said that the political culture in Viet Nam is such that, as yet, there is little real public demand for such information.

Box 99: Promoting compliance with regulations regarding publicly available information

Bangladesh: Although official regulations stipulate that union *parishads* should display information in public places (at the site of construction works, for example), this is seldom done. However, the Sirajganj LDP supports improved information flows by including a contingency fund for scheme notice boards in all scheme estimates. These boards display all the salient points about a project, including scheme type, commencement and completion dates, costs and any other key features, thus providing a very visible means of accountability to the community.

3. Making information publicly available – what and to whom?

LDPs will probably need to explore a range of options if there are no statutory provisions specifying the kind of information to be made available about LG affairs, or where such regulations appear to be insufficient. Table 30 provides a basic summary of the kinds of information that may need to be made publicly available, and to whom.

As a very rough rule of thumb, LDP experience has been that priority should be given to making information about planning and budgeting decisions, expenditure, revenues and outcomes, and basic regulations publicly available in a form that is easily understood (see Table 30).

4. Making information publicly available – how and by whom?

A range of media and methods can be used to make information publicly available, although options will obviously vary from country to country. Table 30 provides a brief summary of these, along with comments.

Two key issues to consider in determining which media to use are:

- **Outreach:** The capacity of the communication method to reach as large a public as possible, which will partly be a function of the innate characteristics of the medium

Table 30: Information needs

Type of information	Information users	Remarks
Basic regulations (citizens' rights, LG procedures, LG obligations, etc.)	Community leaders and representatives, general public and LG councils	Accurate information about the normative framework for local governance is, in itself, vital knowledge. People need to know how LGs are supposed to function, what they are supposed to do, and what citizens' rights (and responsibilities) are in relation to LGs
Budget ceilings, IPFs, including the outcomes of MC application and performance-based assessments	LG planners, community leaders and representatives	Unless people know what annual budget ceilings are, they are in no position to know what can be funded. At the least, LDPs need to ensure that information about the IPFs they allocate is made publicly available
Planning and budgeting decisions	LG councils, community leaders and representatives	The political choices made about what is to be planned and budgeted for must be approved by representative bodies (councils) and made known to the general public. Again, a minimum requirement of LDPs is that they ensure that planning and budgeting decisions related to LDF resources are made publicly available.
Approved plans and budgets (projects selected, expenditure, revenue)	LG councils (in the case of francophone tutelle arrangements), community leaders and representatives	As above
General LG decisions (by-laws, conflict resolution, land allocations, etc.)	Community leaders and representatives	Such general decisions should be public knowledge, both for practical purposes and so that citizens can assess their appropriateness
Implementation arrangements (bid selection, etc.)	LG councils, community leaders and representatives	Decisions about contractor selection need to be made public to allow for oversight and reduce opportunities for partiality
Expenditure, revenue and outcomes	LG councils, community leaders and representatives	People need to be informed about what was actually done and what it cost, in order to be able to assess LG performance for themselves

(e.g. using radio transmissions is likely to reach a wider public than using notice boards), as well as the nature of the public (e.g. using radio transmissions will only reach a wide public if the majority of people can readily afford and purchase radios);

- **Cost:** Whilst donor-funded LDPs might be able to afford relatively sophisticated media, such as radio transmissions, local or central governments are likely to have budget constraints and may therefore be inclined to use less sophisticated media with a limited outreach, such as notice boards.

There is often a trade-off to be made here, as the greater the potential outreach of a given medium, the more costly it is likely to be.

Furthermore, whatever the media used, an important consideration should be the accuracy of any information thus provided: inaccurate or poor information is possibly worse than no information at all.

Another issue that needs to be considered in designing a communications and information strategy for fostering downward accountability is which agencies or institutions will be expected to provide information. Table 32 lists the four most likely sources of information, as well as comments on them.

5. Final comments on overall communications strategy

The public provision of information, by whatever means, enables local citizens and others to track local government activities and increases the extent to which LG officials become more accountable. As Box 100 shows, this often results in improvements in the delivery of public goods and services.

LDPs have tested out a number of innovative ways of facilitating the provision of in-

Box 100: Improved information flows in Uganda

"The problem of budgeted payments not finding their way to the point of service delivery was revealed in a World Bank study in Uganda, 1991-1995, which found that most schools were not receiving the capitation grants to which they were entitled. Globally, only 30% of the allocated amount was reaching schools on average by the end of 1995. The bottleneck was the district education office, which was holding on to the capitation grants sent by central government and not distributing the finance to schools. The government acted rapidly to improve the flow of information and make budget allocations transparent by: i) publishing amounts transferred to the districts in newspapers and radio broadcasts, ii) requiring schools to maintain public notice boards to post monthly transfer of funds; iii) legally…[providing] for accountability and information dissemination in the 1997 LGA; and iv) requiring districts to deposit all grants to schools in their own accounts and delegating authority for procurement from the centre to the schools. By 2000 some 90% of the intended funds were actually reaching primary schools – a huge improvement..."

From: What's behind the budget? Politics, rights and accountability in the budget process, *Andy Norton & Diane Elson (2002), ODI, London.*

Table 31: Communications methods

Method of communication	Advantages	Disadvantages
LG public notice board	Inexpensive, can be referred to several times	Limited to the literate public, limited to those who frequent LG offices
Public meetings	Inexpensive, oral and can therefore provide information to the vast majority of the public	Attendance is limited, transitory source of information, subject to misunderstanding
Brochures and pamphlets	Relatively inexpensive, enduring source of information	Limited to the literate, distribution problems
Theatre	Attractive and appealing to the public, oral	Costly, limited audience, transitory source of information, message may be submerged by the medium
Newspapers	Relatively inexpensive, potentially large audience, enduring source of information	Limited to the literate, few local newspapers in rural areas of LDCs
Local radio	Relatively inexpensive, widely accessible, oral	Transitory source of information, not always available in LDCs
National radio	Relatively inexpensive, widely accessible, oral	Transitory source of information
Video	Visual and oral	Relatively costly, requires audio-visual equipment
Television	Visual and oral	Very costly, likely to be limited to wealthier households
Websites	Relatively inexpensive (to set up), easy to update	Accessible to very few, limited to the literate, requires relatively sophisticated ITC

formation. Some LDPs (such as TCSP in northern Mali) have opted for a comprehensive communications strategy, providing local citizens with access to information about a wide range of local government issues. Others (like DFDP in Nepal) have taken a more focused approach, concentrating on ensuring that the public is provided with information about specific phases in the ISD cycle. And other LDPs (such as SLGDP in Bangladesh) have promoted a dual process of information provision regarding LG activities and self-evaluation, akin to the 'report card' system usually found only in urban contexts.

D. Horizontal accountability Between Branches of Local Government

Another dimension of accountability, and one that deserves more consideration than it usually receives, is the accountability of local civil servants (the local executive branch) to locally elected officials.

1. What is meant by horizontal accountability?

In the literature this dimension is often referred to as the problem of horizontal accountability. LDP experience suggests that this description can be misleading, and that it reflects two rather restrictive assumptions.

Table 32: Sources of information

Source of information	Information to be provided	Issues
Local private and public media	LG decisions, corruption, success stories	In more mature democracies, the media plays a crucial role in providing and interpreting information. However, in many LDCs the media is under-developed and unable fully to play such a role at the local/rural level. Nonetheless, wherever possible, LDPs should consider encouraging the media to report on LG actions and activities
Local government	LG decisions, resources, processes, procedures, outcomes	Local government can provide the public with access to a great deal of information – and in many cases, this is statutory. However, some local politicians feel threatened by the wide release of information (beyond what is legally required) about their responsibilities and resources (particularly budgets), and may devise measures to distort and limit the impact of public information
Central government	LG decisions, resources, processes, procedures, outcomes	Central ministries, which should play a key role in ensuring communication, may be wary of charges that they are violating the independence of local governments. Donors, party politicians and LGs may feel that they are overstepping the mark on sovereignty and interfering in local politics by supporting information campaigns
Project	LG decisions, resources, processes, procedures, outcomes	LDPs themselves can directly engage in providing information to the public. While this may be necessary in the early stages of the LDP, it is clearly not a sustainable option in the long term

- Firstly, it supposes that local civil servants are solely accountable to local elected representatives, rather than to the public. This is no doubt realistic for higher-level civil servants, but seems to neglect the possible scope for performance monitoring by the public of frontline civil servants such as teachers, health workers and extension agents;

- Secondly, it supposes that local elected officials and the local executive branch are at the same institutional level. This is certainly typical of the districts set up in most East and Southern African countries (including the woredas in Ethiopia), but it is not at all true for many other countries, such as Senegal, Benin, Cambodia and Bangladesh, where deconcentrated civil servants are situated at a higher level (*département*, province or *upazila*) than the elected local commune councils, neither falling under their hierarchical control nor even any dual supervision arrangements.

Box 101: Public information provision in LDPs

Mali: In 2001 the Timbuktu Commune Support Project (TCSP) formulated a communications strategy on the basis of a knowledge and practice survey conducted in a number of communes. Part of the strategy included radio programmes transmitted by local FM stations, covering a wide range of topics on decentralization: basic institutional arrangements, the role of the administration, local planning processes, etc. The strategy also included providing citizens with information about block grant allocations, the results of performance-based assessments and overall budgeting decisions made by communes. TCSP also organized training sessions in public communication for all the rural communes with which it works, as well as training on local governance issues for local radio journalists.

Nepal: DFDP has piloted the use of signboards at micro-project sites (providing basic information on budgets, community members responsible for project implementation, expected completion dates, etc.), thus providing the general public with unprecedented amounts of information about ISD. This has been highly innovative in the Nepali context, as general LG practice makes no provision for the systematic use of signboards for publicly funded micro-projects. In addition, DFDP introduced the use of project books by user committees responsible for micro-project implementation. All micro-project issues (decisions, costs, payments, technical aspects, etc.) are to be recorded in these books, which are open to public scrutiny. Project books also provide the basis for social audits, as well as regular public meetings where user committees explain and account for progress (or the lack of it) in project implementation. Under DFDP guidelines, these meetings are mandatory for the initial and subsequent release of funds. Again, this has been highly innovative in the Nepali context - and goes well beyond the provisions of the Local Self-Governance Act in promoting transparency in public affairs.

Bangladesh: SLGDP has introduced an annual performance review process that operates in the manner of a public report card. The review is held at a public meeting (usually attended by between 80 and 120 people) and is facilitated by the union *parishad* (UP) coordinator. The public are asked to assess the effectiveness of the UP by marking its performance against a range of criteria. Categories for assessment include:

- The opening and operation of the union *parishad* office;
- Tax collection status;
- Finance and accounts;
- SLGDP scheme implementation;
- Additional competencies (including participation of female members, public budget preparation process, operation of the village court, and so on).

Overall, a major benefit of this process is the dissemination of information on the linkages between tax compliance, collection and service delivery. UPs report that one direct benefit of this process is a greater willingness on the part of ordinary citizens to pay their taxes because they have a better understanding of how the money is used.

2. Different challenges

Ensuring civil servant accountability therefore entails several distinct challenges.

Local horizontal arrangements at the same tier. A series of specific factors come into play when local governments employ or co-supervise civil servants at the same level. These will affect the accountability of the latter to the former, depending on:

- Whether they are directly employed by the district, by line ministries or are part of a wider local government cadre;
- How the dual supervision roles by the district and parent ministries are defined for local line staff;
- How officials relate to and are supervised by elected councillors on a daily basis, and how committee systems are structured and operate.

Local vertical arrangements between tiers. As noted, in many countries it is the responsibility of upper tiers of government (both central and local) to provide lower tiers of local government with key services: technical backstopping, mentoring, finance, and so on. Generally, several factors will determine how effectively the upper tier will be held accountable to the lower local government. These include:

- The role of deconcentrated administrators, such as the prefect, in ensuring that departmental line staff provide support to communes;
- Whether communes are able to negotiate technical service provision agreements or even contracts with line departments;
- How far communes can collaborate with deconcentrated line departments in the joint planning and delivery of basic services in the main sectors.

3. Information needs

Whatever the precise nature of the horizontal (or lateral) arrangements, information is a pre-requisite for meaningful accountability.

Norms and statutory provisions

The basic information needed by lower tiers of local government to hold upper tiers accountable is essentially normative, and relates to statutory provisions:

- The obligations of upper tiers to lower tiers of government;
- The services available at upper levels that can be accessed by lower levels (e.g. engineers, financial management personnel, etc.);
- The ways in which financial transfers from upper to lower tiers are calculated;
- The kind of recourse open to lower tiers of government in the event that they do not receive statutory support from upper tiers.

Box 102 provides examples of some of the statutory responsibilities of upper-tier to lower-tier LGs.

However, it is by no means self-evident that lower-tier LGs are fully aware of their ‘rights’

Box 102: Examples of upper-tier LG responsibilities towards lower tiers

Uganda: The Local Government Act of 1997 refers to twenty ways in which district LGs are responsible for providing mentoring and support to lower-level LGs, including:

- Advising lower-tier LGs about by-law regulations;
- Advising lower-tier LGs on national policies;
- Helping lower-level LGs comply with financial regulations;
- Sharing some revenues with lower-tier LGs.

Nepal: The Local Self-Governance Act of 1999 specifically commits district development committees to providing lower-tier village development committees with technical assistance on the preparation of their annual plans.

Mali: Official regulations specifically stipulate that territorial collectivities (communes, *cercles* and regions) can negotiate and obtain annual technical support from state technical services. This is to be done through the state administration (governor at the regional level and prefect for the *cercle* and commune levels), which is then expected to coordinate support from line departments.

with regard to upper-tier (or even central) governments. LDPs should therefore seek to make sure that this information is made available to them.

A further limitation on this form of accountability is budgetary constraints, which limit the responsiveness of higher-level departments to LGs.

Civil servant and local line department performance

In order to hold service units or local civil servants (who are directly employed by local government) accountable, locally elected officials or councils need to have access to the following kinds of information:

- Normative information concerning their responsibilities, tasks, work plans and the like, which will enable elected officials/bodies to know what they can expect of the agencies and civil servants that are accountable to them. Without this knowledge, they will be unable to assess performance;

- Empirical information about performance. This information is both fundamental and often extremely difficult to obtain on a meaningful basis. Measuring public sector performance is notoriously difficult.

Therefore, LDPs need to provide appropriate support to elected local government officials to enable them to access the information needed to hold local civil servants or local service departments accountable.

Social audit, report cards and information

At this point, it is worth saying something more about the social audit or citizen report card (CRC) systems that have been pioneered in a number of Indian cities. These have become an increasingly popular tool for airing citizen's views and thus increasing the accountability of urban local governments in India and elsewhere. Generally, CRCs are drawn up by civil society organizations to try to gauge popular satisfaction (or dissatisfaction) with a range of municipal services. They are then published and used as a basis for engaging with local government on a range of service provision issues.

Viewed from the perspective of LGs, CRCs may be seen as a potentially valuable and useful source of information about their performance as service providers. For both elected officials and senior local civil servants, report cards can be a helpful way of assessing frontline service delivery to citizens/clients and – in the event of failings or inadequacies – a basis for insisting upon improvements. Although CRCs are largely a civil society initiative, they are only genuinely useful when LGs take them seriously and act upon their findings. It is important to remember this point, which is often forgotten in some of the more 'voice'-oriented literature.

To date, no LDP has experimented with or operated within the context of a full-blown CRC system, although there are some similarities with the annual performance reviews undertaken by union *parishads* in Bangladesh. This is partly due to the largely urban 'bias' of CRCs; indeed, the report card process appears to be better adapted to urban rather than rural areas. In contrast to most of the rural areas where LDPs operate, urban areas (such as Bangalore, where CRCs were first pioneered) commonly exhibit a more vibrant civil society, much higher rates of literacy, more diverse and better-developed media, more LG-provided services and higher population densities (thus reducing the cost of service satisfaction surveys). CRCs would probably be prohibitively expensive and much more difficult to manage in most rural areas.

E. Upward Accountability: Information for Higher-Tier and Central Government Oversight

Virtually all LGs are upwardly accountable to higher tiers of local and central government, although the precise nature of this accountability varies from country to country. Such upward accountability enables upper tiers to verify that LGs are complying with major policy goals, monitor or track LG expenditure and revenues, and ensure that LGs operate within the framework of their statutory mandates. To make this possible, LGs must provide upper tiers of government with timely and accurate information.

LDPs can support this process of upward accountability through several avenues:

- Support for improved monitoring and management information systems within ministries of local government;
- Promotion of incentive mechanisms to encourage local governments to comply with upward reporting procedures. One such mechanism is the performance-linked funding detailed in Chapter 2;
- Support for improved local accounting and reporting on use of funds.

F. Incentives and support for the provision of information by local government

One of the major problems LDPs are likely to encounter in implementing a communications and information strategy is local government reluctance or lack of capacity to make information publicly available. There are a number of options for dealing with this:

- Providing LG officials with training in communication;
- Covering information provision costs (e.g. signboards for projects) through a small allocation within the annual block grant;
- Making the provision of information to upper tiers of government on a timely and regular basis a minimum condition for access to annual block grants;
- Including compliance with statutory requirements for public information as a minimum condition for access to block grants;
- Making the degree to which information is made public by LGs a performance criterion, such that good communications performance is rewarded by increases in block grant allocations.

Box 103: Incentives for making information available

Nepal: Within the framework of the Decentralised Finance and Development Programme (DFDP) in Nepal, the criteria by which the performance of district development committees (DDCs) is assessed include the quality of their communication activities with regard to three types of information: size of annual block grant allocations, approved projects for DFDP funding, and implementation of DFDP-funded projects. Overall performance score increases with the number of different types of media used by a DDC to make this information public, thereby increasing the likelihood of it benefiting from a 20% increase in the next annual block grant allocation.

Tanzania: Performance-based assessments of districts involved in the Support for Decentralization Programme (SDP) in Tanzania include a communications component. District communications are assessed in terms of:

(i) posting of IPFs (at all levels – district and ward);

(ii) posting of annual approved projects at district level;

(iii) availability of project timeframes and budgets at both district and project management committee levels;

(iv) copying of all relevant documentation (budgets, work plans, supervision and payment arrangements) to project management committees.

Districts performing well in terms of communications (which can contribute up to 8 points towards a total maximum performance score of 62) are more likely to benefit from a 20% increase in their IPF for the following year.

G. Future Directions

Although LDPs usually seek to have a policy impact in terms of the more 'technical' aspects of decentralized planning, financing and delivery of public goods and services, there are grounds for arguing that they should widen their scope to include communications and information. As the foundations for improved accountability and thus for improvements in overall service delivery, these merit greater policy attention in many LDCs.

There may also be scope to promote and help publicize codes of conduct of the kind recently subscribed to by local governments in Uganda (see Box 104).

Box 104: Ugandan Charter of Accountability and Ethical Code of Conduct

The Ugandan Charter of Accountability and Ethical Code of Conduct was introduced and signed by all local governments at the annual Consultative Meeting of Local Governments, sponsored by the Uganda Local Government Association.

The Charter outlines the roles of the different stakeholders in local government administration in ensuring proper accountability and ethical conduct in local government administration; lists performance indicators and monitoring and evaluation mechanisms; and cites the offences and sanctions related to bad performance and the awards and incentives for good performance. The document also describes the enforcement and application mechanisms to be used by authorities.

All district chairpersons, chief administrative officers and town clerks signed the document during the most recent ULGA annual meeting, held on April 23, 2003. New signatures will be added as new persons join various offices.

The Charter is seen by Ugandan local governments as a mechanism that will help prevent recentralization.

CHAPTER 5: CAPACITY BUILDING

About this chapter

This final chapter addresses more squarely the theme of CB. It begins with a framework to help identify the possible constraints on LG performance which require remedial action, and a reminder that very often the key underlying problem is the inadequacy of the systems, procedures and incentives within which people have to work – and that the thrust of the innovations covered in Chapters II, III, and IV above is precisely to address these constraints. Where the problems are due to human resource constraints, the chapter spells out the types of remedy which may be possible, and highlights the typical skills which may need to be imparted, and some of the options for imparting them. LDP innovative experience in devising "demand-driven" CB mechanisms for LG personnel is also introduced. Finally, measures to address logistical constraints on performance are also covered. Throughout, this chapter seeks to remind the reader that CB is more akin to a performance art or a sport where skills can only be fully acquired by "doing," and that the conventional dictum "no decentralization of responsibility until LG capacities are in place .." makes little sense and should be reversed.

Questions addressed

How do training and institutional development relate to capacity building?

What are the typical local capacity problems?

How is a capacity-building strategy developed?

What kinds of measures and options best address local personnel gaps?

What are the typical skills and awareness shortfalls, and how can they be remedied?

What kinds of material needs are to be addressed?

What is the scope for demand-driven capacity building?

What kind of capacity building is required at national level?

A. Context and Clarification

1. The rationale for capacity building within LDPs

The aim of LDPs is not only to improve the delivery of local public goods and services by local governments, but also to enhance the broader context of local governance, developing more productive and transparent inter-relations between local governments and the public on the one hand, and local governments and community organizations, private sector and NGOs on the other. Strengthening local capacities is obviously key to attaining both goals.

The term "capacity building" is used in many different ways, and may therefore be the source of some confusion. Sometimes it is simply equated to the provision of basic equipment, at other times to training, on other occasions to institutional development, and so on. With this in mind, it is important to set the stage for this section by clarifying the broader rationale and framework for the different aspects of capacity building.

First, it is useful to recall the two distinct, but often conflated, meanings of the concept of institution, which covers both:

- Institutions as organizations (governments, firms, community groups, etc.); and
- Institutions as procedures, systems or rules (governing the behaviour of people within these organizations).

Second, it should be remembered that the aim of capacity building within LDPs is to improve the performance of local organizations, which may include local governments themselves, other government departments or community groups, etc.

Third, in improving the performance of local governments and other local organizations, we need to recognize that the types of constraint that typically need to be addressed vary considerably. These can be grouped as shown in Box 108 below:

ii. Framework for capacity building strategies within LDPs

Naturally, different measures are required to address each of these different constraints, and any comprehensive capacity building strategy should be a composite of these. Table 32 provides an overview of the different kinds of capacity building (CB) measure adopted by LDPs to address each of the various problems underlying poor local organizational performance.

Box 105: Typical constraints to the performance of local government and other local organizations

Human resource constraints: These may include any of the following:

- The number of people or personnel within the LG or specific departments or units (lack of local government technical or accounting staff, etc.);
- Individuals or staff lacking basic skills, information or awareness about their roles (e.g. local government secretaries lacking in basic record keeping or accounting skills, newly-elected councillors unsure of their roles);
- Individuals or staff lacking awareness or understanding of proposed innovations in procedures and systems (e.g. local government officials, councillors and community members uninformed about proposed innovations in local planning procedures - see c. below).

Material or logistical constraints: There may be limitations in:

- The operating budgets of the LG for travel by field staff, council member attendance allowances, office electricity, etc.;
- Other material factors needed to enhance the productivity of LG or other organizations, mobility of personnel, etc. (vehicles, office equipment and furniture, etc).

Institutional constraints: There may be limitations inherent in procedures, systems or norms of behaviour that undermine the performance of persons working within the various organizations. These typically derive from inappropriate or vague procedures for financing, planning and budgeting, implementation, procurement and financial management, or for operations and maintenance of local public goods and services. *These are discussed in Chapters II and III.*

Incentives for good performance: Lastly, organizational performance may be undermined even where trained personnel and appropriate procedures are in place, if there are insufficient incentives for them to do their jobs properly and comply with procedures and rules. This is essentially due to inadequate mechanisms for ensuring accountability and control of personnel. *These are discussed in Chapter II.D.*

Table 32: Overview of measures to address constraints to local performance

Capacity constraints to be addressed	Elements of a capacity building strategy
a. Human resource constraints	• Temporarily underwriting the cost of additional personnel, with a strategy for how this may be sustained • Making funding conditional upon key personnel being in place • Direct training of local personnel, or training of trainers • Involving local personnel in real-time planning and management activities • Developing guidelines, manuals and reference material; See Chapter 5.C.
b. Material and logistical constraints	• Devising sustainable mechanisms to fund travel and related expenses for local personnel • Provision of basic material support that is technically appropriate and within modest limits; See Chapter 5.D
c. Inappropriate or vague procedures, systems and rules	• Test, adapt, develop and extend more appropriate procedures, systems and rules (see Chapters 2 and 3) • Prepare simple guidelines, manuals and reference materials • Train personnel (or trainers) in the use of these
d. Inadequate incentives	• Link funding arrangements to performance (see Chapter 2.D) • Improve information, communications and mechanisms for downward, horizontal and upward accountability (see Chapter 4.) • Overall support for reform of the policy, legal and regulatory framework within which local government operates (see Chapter 1.B).

Within such a framework, training and institutional development then become measures or strategies for achieving the wider goal of capacity building for improved performance.

B. General Lessons with Regards to Capacity Building

Before looking at capacity building measures and options in more detail, it is worth highlighting a few general lessons learned from LDPs with regard to all CB activities.

1. Not just 'training needs'

Any capacity building programme needs to be designed around an analysis of the different types of constraints currently affecting the performance of local government and other local organizations, as outlined above. Obvious though this may seem, LDP experience has shown that specialists often focus solely on exploring narrower 'training needs'.

2. Tailoring procedures and systems

LDPs differ from more orthodox rural development projects where planning and other systems are frequently set up to be managed by project teams rather than by local governments. Precisely for this reason, LDP procedures and systems need to be tailored not only to realistic views of capacities at the local level, but also to the politics of local government:

- While large, well-staffed district councils may be able to manage quite complex systems, there is little point in piloting procedural or methodological innovations (such as complex computer-based GIS or other databases) for the lowest tiers of local government (Malian communes or Bangladeshi union *parishads*), when in the long term there is really very little likelihood that they will be correctly used by, or even useful to LGs;
- Similarly, highly elaborate and potentially costly planning procedures (using detailed cost-benefit or other analytic tools, for example) would be entirely inappropriate for the intrinsically limited capacities of many lower-tier local government units or village development committees;
- Even simple procedures and systems need to be designed with an eye to the politics of local government. This may seem messy to a technical professional, but its essential vigour and potential for accountability are the very reason for working through local government in the first place. For example, 5-year planning cycles that cut across the time mandate of elected councils are unlikely to be well received, while overly designed fund allocation mechanisms predetermining what goes to each ward will tend to undercut the scope for legitimate political in-council competition between different ward representatives.

3. Awareness of opportunity costs, sustainability and replicability

There is also a need to be clear about how much capacity building should be done and what kinds of capacity require strengthening. It is all too easy to embark on comprehensive capacity-building exercises that are disproportionate to real requirements. LDP resources are always limited (as will be the case for wider LG support programmes implemented by national governments), and they should be used as efficiently as possible.

4. A frequent misconception: 'Local capacity as a prerequisite for...'

In many countries, and within many donor agencies, there is a tendency to see capacity building as an essential prelude to decentralization – the argument being that local governments should not be given wide responsibilities until local capacities have been fully strengthened. However, LDP experience strongly suggests that this view is often misplaced, for two reasons:

- Firstly, the term "local capacity" needs to be understood in its widest sense. While it may well be true, for example, that a small *communauté rurale* in Senegal lacks the capacity to design and cost a small irrigation dam, it is more than likely that it can outsource that task to a consulting engineer, the state technical services or an NGO. There would be little point in building up the in-house capacity of the *communauté rurale* to do something that can already be done by others. It might, however, make much more sense to strengthen its capacity to outsource and negotiate contracts. In other words, local governments can be entrusted with provision responsibility for financing and planning for a range of infrastructure and services, without themselves needing to possess the technical production capacity;

- Secondly, in practice, the devolution of responsibilities and functions usually acts as the necessary demand-driven stimulus for local government and other local organizations to acquire capacities. Indeed, it is also increasingly recognized that, in common with performance art or swimming, planning and management are skills that are far better learned by doing than by listening to an instructor.

In other words, LDP experience suggests that the usual dictum should perhaps be reversed, and that devolving responsibilities, along with clear guidelines and adequate monitoring, is a pre-requisite to the real development of local capacities.

5. Preview of the remainder of this section

The overview above outlined the main CB measures that LDPs typically deploy to address the various problems underlying poor local performance, and some general considerations that should inform CB strategy. Of these, the dimensions of capacity building concerned with the development of more appropriate institutional procedures, systems and incentives are dealt with in earlier sections of Chapter III (as indicated in Table 31 above).

i. Focus of this section

The remainder of this section focuses exclusively on two specific sets of CB measures: those addressing human resource (HR) constraints, and those addressing material and logistical constraints. These aim to strengthen local government and local official capacity to operate particular procedures and systems within a given framework of institutional procedures and incentives. While they are primarily at the local level, some consideration is also given to national HR support.

Modes of delivery. The human resource and material capacity-building measures outlined above can be delivered in one of two ways:

- **Supply driven:** Through the direct provision of training, personnel and equipment, as determined by the project document or subsequently planned by the project management unit. Most LDPs – like most donor programmes – have followed this approach, which will be the main focus of this section;

Box 106: Capacity-building Measures

Human resources

- Temporarily underwriting the cost of additional personnel, with a strategy for how this may be sustained
- Making funding conditional on key personnel being in place
- Direct training of local personnel, or training of trainers
- Involving local personnel in real-time planning and management activities
- Developing guidelines, manuals and reference material

Material and logistical

- Devising sustainable mechanisms to fund local personnel travel and related expenses
- Provision of basic equipment and material support that is technically appropriate and within modest limits

- **Demand-driven:** Through demand-driven mechanisms established as part of the LDP itself, which allow LGs to identify and meet their own CB requirements from a general budget allocation for that purpose. Limited LDP experience with this mode of delivery, primarily from Uganda, will be introduced.

C. Human Resource Capacity Building at the Local Level

Strengthening human resources at the local level is usually one of the most important activities to be undertaken by LDPs. Therefore, project designers and teams should not underestimate the amount of effort, time or resources needed for such activities. Given the typically wide range of local HR-related problems, it is also an area where LDPs need to be strategically focussed and seek partners with their own comparative advantages for complementarity. Two distinct types of local HR challenge are considered below:

- Addressing local human resource or personnel gaps;
- Addressing skill deficits and other training requirements.

1. Local Human Resource or Personnel Gaps

LG performance may be compromised because key establishment staff posts are unfilled or because there are simply no establishment provisions for the kind of personnel that are really needed, either within local government organizations themselves or within the supporting agencies of central government.

Clearly, it would be pointless for an LDP simply to fill the personnel gap for the duration of the project with no hope of it being either sustainable or replicable. More meaningful options would include:

Box 107: Using incentives to fill LG staffing gaps

In *Uganda*, block grant access was made conditional upon districts and sub-counties hiring key finance staff. This proved to be successful in filling staff gaps, because finance staff are directly employed by LGs in Uganda.

In *Bangladesh*, block grant access for union parishads was made conditional upon UP secretarial salary arrears being paid in full, thereby removing a major source of discontent and under-performance. This was less successful than the Ugandan initiative, as by then it was central government that paid the salaries. This made the incentive irrelevant, so the conditionality was dropped.

a. **Incentives for staff hiring/deployment.** LGs can be encouraged to fill key staff vacancies by making block grant allocations conditional on key staff being in place (see also III.B.);

b. **Innovations** whereby LGs can recruit extra personnel to carry out key tasks, although care should be taken to ensure that this is sustainable. Several LDPs have used the block grant mechanism itself for this purpose;

c. **LG cooperation.** In some cases, local authorities may be encouraged to cooperate and jointly hire key technical staff that no individual authority can afford to employ on its own account;

d. In other cases, however, there may be no alternative but to engage government authorities at the policy level, in order to advocate for increased staffing in key areas;

In this regard, LDP experience indicates that there is often a major organizational staffing gap in supportive LG oversight, which impairs local government performance within the (deconcentrated branches of) ministries of local government or territorial administration.

2. Local Human Resource development

Even when personnel are in place, they are often insufficiently aware, informed or trained to be able fulfil their functions to a satisfactory level. There are **two main areas** where awareness, skill development and training may be required:

- Skills for prescribed, standard roles and functions: the 'Basics', which are the focus of the rest of this sub-section;
- Skills needed for adoption and management of the various innovative institutional procedures and systems being piloted specifically by the LDP (dealt with in preceding sections).

Box 108: Devising potentially sustainable funding for key LG personnel

In *Nepal*, district development committees are allowed to use up to 6% of the annual LDP block grant to access technical inputs to support investment implementation. They opted to hire full time works engineers, who are considered as DDC employees operating under local government employment conditions, and not LDP staff.

In *Cambodia* and *Bangladesh*, local authorities are allowed to use up to 5% of their block grant allocations to hire part-time local facilitators to support extension of the local planning process to community groups. (See Chapter 3.C)

Although they can offer no guarantees, these arrangements do offer the possibility of sustainability insofar as the block grant funding is itself sustained after the LDP ends.

i. Human resource development for the basics

General

Generally, HRD plans should include the following elements:

- An assessment of the functions to be performed and capacities that exist at the local level (both within and outside of local government);
- Hence, an analysis of where CB efforts need to be focused (both in terms of thematic needs and people/organizations);
- Identification of the resources needed to carry out targeted CB activities (trainers, training materials, funds, etc.);
- An implementation plan with a clear calendar and location for CB activities;
- An auto-evaluative methodology, thereby equipping the LDP with the means of measuring the impact of its CB activities.

The remainder of this section highlights some of the issues that may need to be taken into account when formulating and implementing a capacity-building strategy.

Assessing functions and needs

An assessment should be made of the skills and expertise needed by local governments and other local actors. This should be undertaken in a fairly summary fashion during LDP preparation, and then in more detail at the outset of implementation.

Direct consultation with LG councillors and staff and supervisory agencies (ministries of local government, territorial administration and finance) is important for a meaningful assessment, as well as review of the detailed provisions of LG legislation, regulations and circulars regarding the duties and responsibilities of LG personnel. This latter is often neglected.

Box 109: Two main areas for local human resource capacity building

As far as local governments are concerned, there are essentially two distinct areas where HR development efforts need to be focused to improve the performance of LGs and other local organizations:

a. The basics: performing prescribed roles and functions. Local governments are called upon to undertake a basic range of prescribed routine functions, as outlined below:

- Councillors: their main roles are to represent and interact with the public, supervise LG staff activities, manage council and committee meetings and deal with line departments. Typically, little if any information or training is provided, especially to rural councillors. This problem is accentuated by the frequent turnover of elected councillors at each election.
- LG core staff (clerks and secretaries, financial staff): their main roles are basic administration and record keeping of council business, book keeping, financial accounting and reporting, budget preparation, minor procurement, etc. Despite the fact that they constitute the institutional memory of LGs and councillors are heavily reliant on them, such staff, especially long-term staff, usually receive very little training.

b. The innovations: adopting LDP procedures and systems for improved service delivery performance. Local governments and community organizations should also be required to understand and adopt the various innovative procedures and systems specifically developed and extended under the LDP itself (e.g. participatory planning, competitive bidding, financing, monitoring and evaluation, etc.), as outlined in Chapters II and III.

Typical areas of training and skill development

The core of this component of HR capacity building is usually training, often backed up with mentoring and on-the-job support. Training needs will vary from project to project, and should be clearly identified by the LDP capacity-building strategy. Table 33 provides a listing of the main kinds of training that LDPs may need to consider as part of their capacity-building strategies.

Sources of support

Training of local personnel in these basic topics can be carried out by a variety of specialist agencies:

- Foreign or international training centres;
- Independent consultants;
- NGOs;
- Central government staff from relevant ministries;
- Local government staff;
- Host government specialist training institutes.

It is generally neither effective nor cost-efficient to use LDP staff/advisers for this task,

Table 33: Common training topics in LDPs

Topic of training	Content	Likely trainees	Comments	LDP examples
Basic institutional arrangements	Local government laws and regulations; definition of functions, responsibilities, etc.	Elected officials (councillors, mayors), LG executive staff, tutelle, line departments, community leaders	Most likely to be necessary when decentralization reforms are recent	Mali, Senegal
Basic administration	Record-keeping, filing, conduct of meetings, etc.	Senior elected officials, LG executive staff	Often neglected in LDPs, but important nevertheless	Bangladesh, Mali
Gender issues	Role of women councillors; development priorities for men and women and their roles in LPP	Elected officials, LG executive and line department staff, community leaders		Bangladesh, Uganda
Inclusive planning	Planning and budgeting procedures, tools, methods	Elected officials, LG executive staff, line departments, community leaders		Uganda, Malawi, Mozambique, Viet Nam, Cambodia
Tendering and contracting	Tendering procedures; bid evaluations, contract negotiation	Senior elected officials, LG executive staff, Treasury officials, community leaders, contractors		Viet Nam, Mali, Tanzania • links to training materials
Operations and maintenance	Management, user fees, annual maintenance planning, budgeting	Senior elected officials, LG executive staff, community leaders, line departments	Often neglected in LDPs, but of considerable importance	Viet Nam
Financial management	Bookkeeping, accounts, fund management	Senior elected officials, LG executive staff, Treasury officials		Nepal
Revenue collection	Fiscal regulations, taxes, duties, user fees, revenue collection methods	Senior elected officials, LG executive staff, revenue officials	Often neglected in LDPs	Uganda
Auditing	Auditing procedures and methods	LG executive staff, Treasury officials	Often neglected in LDPs, but important for ensuring upward accountability	
Communications and information	Publicity, public relations, media options	Senior elected officials, LG executive staff	Often neglected in LDPs, but important for increasing transparency	
Monitoring and evaluation	Database management, MIS, M&E methods	Senior elected officials, LG executive staff		Nepal

since they are not usually experts in this area, and because it would distract them from their main role of developing and extending the more innovative institutional procedures specific to the project (planning, etc.).

Indeed, for reasons of cost-effectiveness, policy impact and long-term sustainability, the ideal option is usually for host government specialist training institutes to provide as much training as possible (such as Ministry of Local Government training centres). These often – but not always – have qualified staff and standard training materials. However, this may not be feasible if such institutes themselves face severe capacity constraints, the most common of which are:

- Inadequate **operating budget** and/or **inadequate staffing**, which may mean that staff are unable to travel to train LG personnel. This can usually be remedied through some sort of contract with the agency in question:
    - Either to field its own trainers;
    - Or to train trainers as a relay mechanism – other local resource people or NGOs who can in turn be hired to impart the training (LDP staff may themselves be involved, though this is probably not ideal);
- **Inappropriate or incomplete training materials**. It may also be the case that the standard training materials used by these agencies are:
    - Out of print or not available in local languages;
    - Inadequately updated (out of tune with latest developments in the legal or regulatory framework, etc.);
    - In some way contradictory to the innovations being introduced by the LDP (for example, standard procedures for budget preparation may make no mention of links to a participatory planning process);
    - Poorly conceived from a pedagogic perspective;
    - Otherwise inadequate;
- **Inappropriate institutional arrangements**. In some (admittedly extreme) cases, host country specialist training agencies may be only loosely accountable to either central or local government for their performance. The Local Development Training Academy (LDTA) in Nepal, for example, is a semi-autonomous public agency, established by an Act and governed by a large board composed of representatives from a range of institutional stakeholders, mostly from central government, but also including representatives from local body associations. In practice, LDTA is barely accountable to its board (which rarely meets because of its size) – and this has resulted in poor performance. Many local bodies in Nepal prefer not to receive training from LDTA. Under such circumstances, LDPs might be better advised to explore other ways of providing training.

Consequently it is important that LDP staff do not blindly entrust training to such agencies, but review curriculum and materials together with the trainers to ensure that the messages being communicated are appropriate.

Training of trainers

Where host country specialist training agencies do not exist or are judged to be inappropriate providers of capacity-building services, LDPs have often tried to provide training through a training of trainers process (ToT). Through ToT processes, LDPs can build up a core team of national/local trainers that can be used for the immediate purposes of LDP-related capacity building, as well as for more scaled-up activities as and when LDP innovations become institutionalized. Box 110 provides some examples of this approach to capacity building.

Box 110: Training of trainers (ToT)

ToT is a method of developing local (normally host organization) skills in order to (a) carry out the new processes being developed and (b) build capacity for onward transfer of the new skills to other local personnel. UNCDF has used this method to good effect in Eritrea and Tanzania.

Eritrea: The inception mission for the Anseba LDF (April 2002) asked the host organization (the regional administration) to identify a core team of twelve officials. Four came from the administration's technical departments, four from sub-regional councils and the remainder were local project team advisers. The purpose of the core team was to develop a planning manual for project operations, and at the same time offer a framework for a regional development planning process. They produced the first edition of a planning manual, and have subsequently completed its first annual update. By the end of the five-year project local personnel will have gained considerable experience in the local planning process, which will be reflected and tested in the manual. Together they will then constitute the foundation for local replication in other regions of Eritrea.

Tanzania: The regional and local government reforms in Tanzania have been a central feature of government rationalization since 1997. The regional administration in each of the 20 regions was restructured that year, and the following year saw the preparation of its first planning and management guide (PMG) with a local core team. A feature of that guide was the concept of opportunities and obstacles to development: O&OD. This is now a formal, community-based starting point for local planning in the national planning cycle. In January 2003 a new ToT group of 12 officials (four from the regions and eight from the districts) gathered to revise the PMG in light of the changing policy and operational environment. The document was fully updated and its supporting volume of job descriptions was also completely revised. The ToT group is now the foundation for (a) developing a training manual (drawing upon the Mwanza LDF training documents) and (b) delivering that training to all other regions in Tanzania.

Study tours

HR capacity building may also take the form of study tours to other projects, other LGs and in some cases to other countries. Although they can often be highly instructive, several issues need to be kept in mind when deciding to facilitate these tours:

- They work best at stimulating awareness and interest in learning new skills, but are not themselves vehicles for acquiring skills;
- Study tours should be carefully organized and planned. International study tours are best guided by someone with international comparative experience of LDPs, to help interpret and compare the different contexts;
- Generally, only a few people can take part in study tours (participants should therefore be selected for maximum impact);
- They may be relatively costly.

Overall challenges to addressing HRD in an LDP

Securing a 'supply' of HR training expertise for LG personnel in these routine, prescribed roles and functions, and determining how far to go in addressing HRD problems can be something of a challenge, given the limited resources of LDPs and risks of dispersing efforts. This underlines the need to forge partnerships with other agencies better able to tackle these issues than UNCDF (see Box 111).

3. Demand-driven Human Resource Capacity Building

To complement the direct provision of HR capacity building by LDPs, a special fund has been set up to finance demand-driven training of local stakeholders.

Box 111: Problems with HR capacity building in Bangladesh

The success of the LDP in Bangladesh was undermined by failure adequately to address HR development in prescribed LG roles and functions. Although this was to have been tackled by a complementary UNDP project, it was very slow to take off and the LDP attempted to step in. However:

- The consultant engaged initially prepared an over-ambitious training plan covering every conceivable training need;
- Government initially insisted that all training should be undertaken by the national LG training agency, which was already overstretched and therefore unable to release trainers when they were needed;
- A major NGO has its own trainers and materials for LGs, but it has proved difficult to access them due to government reluctance and the NGO's other commitments;
- Alternative training arrangements have been agreed, but the programme has had to go on hold due to impending LG elections that will result in a new crop of elected councillors. In the meantime, the focus will simply be to train LG clerical staff.

This is intrinsically appealing, both in light of the difficulties entailed in devising a 'supply-led' strategy outlined above, and because there is a presumption in favour of 'demand-led' approaches.

However, the challenge of a demand-driven capacity-building strategy is to establish mechanisms that:

- Articulate demand from LGs and others;
- Ensure that demand derives from real (rather than imagined) needs, and that those with the greatest CB needs are the source of demand;
- Ensure that supply responds efficiently and effectively to the demand for capacity-building.

The Ugandan experience of demand-driven capacity building highlighted a number of issues:

Maintaining the strategic coherence of capacity building. 'Demand' for training from local government officials may be expressed on an *ad hoc* basis. In the Ugandan case, it was largely driven by the need for LGs to comply with minimum conditions and performance measures, rather than a systematic assessment of training needs. Therefore, demand-driven capacity building needs to be clearly framed within a coherent and comprehensive national HR development strategy, and within explicitly formulated LG capacity-building strategies.

Efficiency. In the absence of efforts to coordinate HR capacity building, a demand-driven mechanism can be inefficient, as each LG unit may seek to address capacity issues without reference to other LGs, thereby missing out on economies of scale.

Quality control. Unless some kind of quality control is exercised by central government (in the case of Uganda, through the Ministry of Local Government), training provided through demand-driven mechanisms may be mediocre in terms of both content and delivery, and subject to abuse (with upper tier LG officials providing most of the training in reward for *per diems*, and the like). Experience in Uganda demonstrated the need for a pre-defined, high quality curriculum and an established pool of competent trainers.

In conclusion, while there is certainly scope for maintaining space for demand-driven HR support within LDPs, this should not replace more conventional supply-driven approaches, which are needed to provide the minimum or core package required by local bodies. Quality control should also be maintained. Thus, the elements of future strategy would be:

- To focus on more *ad hoc* or context-specific local HR problems or specialist HR development opportunities, which are likely to vary between LGs, rather than on the broader sets of training requirements and skills that all LGs are supposed to access;
- To ally this with an effort to certify training agencies to ensure the quality of the services provided.

Box 112: Demand-driven capacity building in Uganda

Within the District Development Project, the Capacity-Building Fund (CBF) was designed to test the viability and effectiveness of a decentralized, demand-driven capacity building facility for rural service delivery. It was intended to provide local councils with the powers and resources to enable them to determine and manage the provision of training and technical and institutional support consistent with their own needs and the requirements of the NGOs, private sector contractors, consultants and community organizations also involved in planning and providing development services.

Local government councillors and staff assessed their training needs within the context of local government regulations, then established capacity building schedules and co-ordinated a process of training at the district, sub-county and parish levels to meet these needs.

Although the design of the CBF is intended to be demand-driven, several core functional competencies were identified as a priority for the fund. They are:

- Decision-making
- Resource mobilization and management
- Communication and coordination
- Conflict resolution

In addition to these four core competencies, a menu of recommended CBF focus areas includes:

- Local government planning
- Investment appraisal
- Monitoring and evaluation
- Financial management
- Communication, especially with regard to financial transfers and contracts
- Incorporation and registration
- Bidding procedures
- Contract management
- Facilitating the performance of service agencies
- Policy and procedural development

These focus areas are possible capacity building options, and local governments are free to use the funds to fulfil other capacity building needs that they have identified.

Adapted from: "Implementing Capacity Building Fund (CBF) initiatives: Successes and Challenges", (1999), DDP working brief.

Box 113: Capacity Development Strategy (CDS) in Nepal

DFDP has now established a Capacity Development Strategy (CDS), which is based on many of the lessons learned from Uganda. The CDS is based around the following key features:

- DDCs undertake guided self-assessments of their own capacities, which are seen as including (i) systems and procedures, (ii) human resources, (iii) logistical and technical resources. On the basis of these assessments, DDCs then go on to draft CD plans, outlining their needs and the activities intended to meet them. This constitutes the demand-driven component of the CDS;
- At the same time, a supply-driven core CD component has been defined, largely based on the minimum conditions and performance measures used by DFDP to determine annual block grants to DDCs. This core component effectively defines a mandatory set of DDC capacity development activities, which may often be very similar to the activities that emerge from the demand-driven side;
- The Association of DDCs Nepal (ADDCN), a local government association, representing and accountable to all DDCs in the country, receives DDC capacity development plans, articulates them with the core, supply-driven component activities and then sets about coordinating the supply of capacity development services to DDCs. It does so by directly managing each DDC's Capacity Development Drawing Right (CDDR). Where certain activities (e.g. ICT training for all senior staff of a single DDC) can and should be managed by individual DDCs, ADDCN transfers the necessary funds to the DDC (and accordingly debits its CDDR); where activities concern more than one DDC (training for internal audit sections, etc.) and economies of scale can be captured by pooled training, ADDCN is responsible for procuring and paying for relevant services (e.g. trainers, curriculum development, drafting guidelines/procedures) and organizing service delivery on a rational basis. In the case of pooled activities, each DDC's CDDR is debited with a proportion of the cost of undertaking the activity in question;
- The Ministry of Local Development (MLD) provides essential quality control by screening all CD activities (appraisal and approval of all guidelines/procedures, all curricula and the list of pre-qualified service suppliers established by ADDCN);
- DFDP's main role in the CDS is to channel CDDRs to ADDCN and monitor activities and their impact.

D. Logistical and Material Capacity at the Local Level

1. Direct provision

Local governments in many UNCDF programme countries are very poorly equipped. Where offices are rudimentary, even very basic equipment such as typewriters or pocket calculators is lacking, and no reliable means of transport available, it is difficult to expect local government to be able to do its everyday job properly, let alone take up the new functions and apply the innovative procedures that are part of an LDP. Adequate facilities and equipment clearly help increase the productivity of local government and relevant central government agencies such as deconcentrated Treasury departments.

If such material support is necessary, it is therefore legitimate for LDPs to include a modest component for the provision or upgrading of facilities and equipment. Box **114** illustrates this kind of capacity building, using examples from UNCDF projects.

However, LDPs should be careful not to provide too much in the way of material capacity building. This is largely for reasons of post-project sustainability, and in order to maximize the likelihood of LDP replication. There are also obvious opportunity costs, as limited resources spent on administrative equipment and facilities cannot be spent on pro-poor capital items (see Box 114).

2. Demand-driven provision

In some local development programmes it may be possible to ensure the provision of material capacity building by allowing local governments to use part of their capital budget allocations to procure administrative facilities and equipment. As well as being much more demand-driven, this option also has the virtue of being realistic and similar to what might be expected under a regular system of central-local fiscal transfers.

However, some caution is called for in allowing local governments discretion to use their annual block grants for material capacity-building, perhaps by limiting the proportion of the block grant that can be used in such a way or excluding certain types of item, such as vehicles (see Box 112).

Box 114: Material capacity building

Mali: In 2000 and 2001 the Timbuktu Commune Support Project provided the Regional Treasury with a computer to improve its capacity to keep commune accounts up to date, and facilitate disbursements to local contractors hired by the communes to build new infrastructure or deliver equipment.

Bangladesh: Sirajganj Local Governance Development Project in Bangladesh provided unions with a range of simple administrative and office equipment – typewriters, furniture, notice boards, calculators, and safes. Such equipment allows union staff and officials to do their work better.

Senegal: The Kedougou Local Development Fund Project released funding to all its partner communautés rurales to rehabilitate their severely run-down community halls and thus provide them with facilities for council meetings.

Box 115: Demand-driven material capacity building

Under the District Development Project (DDP) in Uganda, annual budget allocations to local governments have not been earmarked and their use has largely been discretionary (within the limits defined by the Local Government Act). However, local governments are not permitted to use DDP allocations for security purposes, even though this is a mandated function. They can choose to fund activities (such as council buildings) outside the National Priority Programme Areas, but if expenditure on such items exceeds 20% of their annual allocation they are sanctioned with a reduced allocation in subsequent years. Thus, the annual block grants allow for material capacity building by local governments themselves, rather than on the basis of pre-determined inputs.

In Mali, communes in Timbuktu Region were allowed to use a limited portion of their block grant allocations to finance commune office improvements and furniture.

E. Capacity Building at the National Level

Finally, there may be areas where capacity building is required at national level to ensure indirect support to local government and other local organizations. In general, two main areas lend themselves to capacity building at the national level:

(1) Strengthening policy development functions;

(2) Strengthening monitoring and oversight functions.

Both human resource and material/logistical support may be provided for each.

1. Human resource capacity building at national level

Apart from activities such as training and study tours (which follow much the same principles that apply at local levels), HR capacity building through LDPs at the national level may take the form of externally funded project implementation units (PIUs). These are seen as designated additional human resources, and are established on an interim or temporary basis (see Box 116).

2. Material capacity building at national level

In order to increase the capacity of central governments to learn and profit from the LDP pilot, it may be necessary to provide some material support to relevant departments or institutions. Box 117 illustrates an example of this in Bangladesh.

Box 116: National-level capacity building: PMUs in anglophone Africa

In Malawi and Uganda, UNCDF has supported the overall local government reform process at national level by contributing to overall policy formulation and legislative refinement, as well as introducing new financing mechanisms at district level. In these two countries this was done through specialized PMUs. A number of features enabled them to play a valuable, capacity-building role:

- In both cases, the PMUs were located within secretariats attached to the Ministry of Local Government, and dealt with specific, non-routine tasks regarding the establishment of radically new improved planning, budgeting and implementation arrangements at LG levels;
- Without the PMUs, the ministries had very limited capacity to develop such new procedures, although they did have the capacity to oversee implementation of the procedures (with some assistance from the LDPs) once they had been tested and established at LG level;
- The PMUs helped the capacity building of ministries proceed more effectively by assisting in the procurement of consultancies for organizational reviews, training, etc.;
- The PMUs had clear exit strategies, with explicit plans regarding the transfer of functions to the main Ministry. Indeed, the head of the PMU in Malawi was later recruited as Permanent Secretary of the Ministry;
- The development of the new procedures under the PMUs in Malawi and Uganda contributed significantly to the harmonization of donor approaches at local government level. In Uganda it led to a substantial reduction of specific bilaterally funded district-based programmes, as donors gained trust in government modalities and increasingly opted for basket funding and budget support arrangements.

However, the precise form, size and strategy of PMUs need to be carefully thought through if they are to make a genuinely sustainable and useful contribution to national-level capacity building. In Tanzania, for example, a number of PMU-related issues have raised important questions about such a form of capacity building:

- Local government reforms are managed by a very large PMU, consisting of a team based in Dar Es Salaam (some six national professionals plus three international advisors) and 30 locally based national advisors. The Tanzanian PMU is basket-funded, with contributions from several bilateral donors and minor support from UNCDF. It is quite possible that the sheer size of this PMU militates against sustainable capacity building at the national level;
- Until 2001, no consideration had been given to formulating an exit strategy, or to directly supporting the Ministry of Local Government.
- The programme's relationship with the Ministry also suffered due to geographical distance, as the PMU is based in Dar Es Salaam (near most of the ministries, the business community and the offices of development agencies), while the Ministry of Local Government, as one of the few ministries transferred to the new capital, is located in Dodoma.

Box 117: Strengthening policy functions in Bangladesh

One component of the Bangladesh LDP aims to support the Monitoring and Inspection Wing (MIW) of the Local Government Division in Dhaka, to enable it to monitor the specific lessons emerging from the LDP and feed them into policy; and, more broadly, to track the performance of local governments country-wide. Therefore the MIW was provided with the following support:

- Computers and software, and an MIS developed by UNCDF;
- Staff training in use of the MIS.

Initially it was clear that senior policy staff in LGD were ignoring the reports generated by the MIW, but this has begun to change now that the Minister has made a commitment to tie local government funding to explicit measures of performance, thus creating a 'demand' for consistent and clear reports on performance measures.

Annexes

Annex to Chapter I: Guidelines for Mapping the Institutional Context

The purposes of this assessment should be to judge the overall scope for supporting a decentralized approach to infrastructure and service delivery; to identify local and central partner institutions; to identify the broad policy constraints on more effective local governance; and to gauge the likely range of project objectives and activities. This assessment provides the basis for programme strategy and design. It must be said, however, that mapping the policy and institutional context for decentralization and local governance is an inherently difficult process. There are several reasons for this:

- There is no clear and unambiguous one-dimensional index of the degree of decentralization in any given country;[5]
- Similarly, as discussed further below, the distinction between devolution and deconcentration is too blunt to be helpful: almost every country exhibits some sort of mix at each level;
- Attempting to measure degrees of national political commitment to decentralization is inherently subjective, and takes no account of the formal institutional set-up or policy differences between different parts of government.

In UNCDF experience, it helps to distinguish between three interrelated dimensions when mapping context:

- Formal institutions - the institutional topography of state institutions at regional and local levels;
- Political impetus - the state and direction of political drive and commitment to empowering these institutions;
- Local government in the project area - a more detailed assessment of the capacity and viability of local government bodies in the designated programme area.

Although these various stages are to a large extent undertaken concurrently, for the sake of convenience they are considered below under three separate headings.

Box A1: Two common stereotypes

Devolution: 'Local Government'

This represents a stereotype (or 'ideal') that no local government is likely ever to fully match in reality. Nevertheless, it provides a useful set of features that can be used as a benchmark. Such a government would be:

- A democratically representative and autonomous political authority.
- Clear mandated to provide a range of significant services.
- A body corporate (juridical personality), with the power to sue, be sued, enter into contractual arrangements, hold a bank account and employ staff, etc.
- In control of or with access to local executive and technical staff.
- Able to access adequate funds, have control over its own budget and accounts, and have the ability to raise own revenue.
- Able to make and enforce local by-laws.

It is generally believed that these features are key to achieving efficient and locally accountable service provision, and thus the related benefits of democratic governance.

Deconcentration: 'Local Administrative Committees'

By contrast, an institution of deconcentrated local administration is generally characterized as follows:

- An inter-departmental committee comprised of line department heads, usually chaired and controlled by an appointed generalist administrator (governor, prefect, district commissioner).
- Mandated to plan and coordinate the activities of the constituent departments.
- Having the status of an administrative body, not a body corporate (thus with no powers to sue, be sued, contract, hold a bank account, employ staff etc. – such functions are undertaken by either the office of the committee chairperson or by the respective line departments).
- Responsible for management of development budget funds, but with recurrent budgeting and expenditure undertaken by individual line departments.
- Not empowered to raise revenues or make and enforce local by-laws.

1. Formal Institutions of Local Government and Administration

The exact pattern of local government and administration in any given LDC derives from traditional local authority institutions, usually overlaid by institutions imposed during the colonial experience and further moulded by subsequent political developments. Consequently, the formal and constitutional structures of local government and administration vary greatly.

a. Dangers of the 'devolution vs deconcentration' dichotomy

It is common for literature on the subject to characterize a sub-national framework as being either 'devolved' or 'deconcentrated'.[6] A summary of the typical features of the two contrasting stereotypes of 'local state institution' is presented in Box A1.

While these polar opposites may be very useful stereotypes for measuring the static set-up at any particular sub-national tier, they do not provide an adequate basis for understanding the overall configuration of sub-national administration in most countries.

Since the sub-national framework of a large number of countries incorporates a mix of both stereotypes, use of this supposed dichotomy is actually potentially misleading in two important ways:

i. It neglects the all-important issue of relations between sub-national levels;

ii. It tends implicitly to suggest that it is desirable for elected local government to be established at each and every level, otherwise the set-up appears 'inadequately' decentralized. However, this may not always be warranted, given the costs entailed and the dysfunctional political tensions that may emerge between sub-national levels and with the centre.

b. A more comprehensive assessment

One of the first tasks of assessment is to map out the local institutional topography as defined by the Constitution, legal statutes, administrative decree, or simply by practice, to determine the extent to which institutions at each level reflect this ideal type. Issues to be explored include:

i. the formally defined levels of government and administration, from region/ province through district/prefecture, county/arrondissement and commune/ ward to village;

ii. the existence of centrally appointed general administrators (governors, prefects, district commissioners, etc.) at these levels;

iii. the existence of elected (or part elected/part appointed) policy-making or consultative assemblies (councils, assemblies, development committees, etc.), their legal/constitutional status and areas of jurisdiction, and their relationship with centrally appointed administrators (supervisory or consultative?) ;

iv. the deployment and employment of executive or line department staff, their geographical area of operations, and their relationships (control, joint supervision, or simply coordination ?) with general administrators, representative assemblies and their own parent ministries;

v. central ministries responsible for local administration and government, and the nature of central-local relations (tutelle and supervision, inspection and audit, or monitoring and mentoring).

This assessment should therefore identify administrative and representative institutions at each level, their role, powers and functions, and the cross-relations of control across institutions at each level and between institutions at different levels. Table A1 provides a framework that aims to capture the main characteristics of sub-national government.

Table A1: Framework for Basic Assessment

Level[7]	Administration	Representation
Central	Key oversight and support ministries and agencies – Ministries of Local Government/Interior; Planning/Finance; LG Civil Service Ministry/Commission; Auditor-General; LG Finance Commission, etc. What are their roles? Do they support, control or supervise?	National Parliament – any indirect local government/mayoral representation? Parliamentary committees on local government/ finance?
1: Typical population?	1. Appointed governor? 2. Line departments? 3. Line department coordinating/development committee? What is its role? Does 1. control or merely coordinate 2. & 3? Does central funding transit entirely through 2., or some through 3.?	Representative council? Basis? Indirect representation from lower tiers? Status, range of functions, staff, financing, etc.? Controlled by, advisory to, or independent of governor/commissioner? Control, dual supervision, or merely coordination with line departments?
2: Typical population?	1. Appointed prefect/district commissioner? 2. Line departments? 3. Line department coordinating/ development committee? Its role? Does 1. control or merely coordinate 2. & 3? Does central funding transit entirely through 2., or some through 3.?	Representative council? Its basis? Supervision or independent from tier 1.? Indirect representation from lower tiers? Status, range of functions, staff, financing, etc.? Controlled by, advisory to, or independent of prefect/ district commissioner? Control, dual supervision, or merely coordination with line departments?
3: Typical population?	Locally deployed line staff? Links with local council/committee? Appointed headman?	Village/ward councils/committees? Their basis? Their role? Links with higher levels? Links to headman? Local chiefs?

c. Urban vs rural differences

It may emerge that at any given level there are significant differences in constitutional or legal provisions for urban areas, which in many countries enjoy more autonomous representative government than rural areas. Indeed, rural areas in a number of countries still have no representative organs at all, except perhaps at the village level; or at least none with anything more than advisory or consultative functions.

2. Political Impetus in Favour of Decentralization

Mapping the formal structures obviously cannot tell the whole story. There are cases of countries whose formal system appears to be devolutionary, but whose formal/constitutional provisions have been politically undermined and emptied in order to re-centralize control (such as Malawi and Kenya in the 1980s, or, arguably, Bangladesh in the more recent past). Conversely, there are countries where, for historical reasons, the formal system does not feature classic local government structures, but where the government may still be pressing for a policy of greater democratic decentralization (such as in Mali in the 1990s, or perhaps Yemen now). Ultimately, of course, such political impetus may itself lead to reform of the constitutionally defined formal structures discussed above.

Box A2: Measures of real political impetus

i. Extent to which local representative bodies are allowed to exert democratic control over the local administration;

ii. Extent to which institutional linkages (consultative or feedback mechanisms) are being created between local authorities and the public;

iii. Assignment of development functions (typically, rural roads, primary health, education, water, etc.) to the authority, and extent to which the local authority is made fully responsible rather than merely acting in a consultative capacity;

iv. Authority assigned powers to raise (and retain) fiscal revenue;

v. Establishment of a mechanism for central-local fiscal transfers (revenue sharing, grants);

vi. Extent of final discretionary authority granted to the local political authority in setting local planning/development objectives for their assigned functions, allocating budgetary resources for and staffing control of these functions, etc.

a. Decentralizing resources and powers: policies and trends

Thus, independently of formal institutional patterns, government policies may be more or less committed to the decentralization of authority and resource control, and more or less dynamic.

b. Central-local relationships: procedures and practices

Finally, and critically, the more routine nature of the central-local relationship needs to be assessed: does the centre empower or frustrate local government? Of course, this is a cross-cutting theme that runs through many of the issues highlighted in the preceding sections, and conclusions will usually be nuanced. Box A3 below suggests some questions which need to be explored.

In summary, it should be said here that there are few LDCs – indeed few countries of any kind – where the centre really empowers local government. What is probably most important is to identify changes and trends in the relationship between central and local government, pinpoint areas where improvements are taking place and highlight inconsistencies between declared policy, formal legislation and practice.

Thus, a key aim at this stage in the assessment is to identify trends or commitments to decentralize such powers or resources to the representative bodies identified in Section 1 above. Specific attention should of course be given to any recent or pending legislation, or to any deliberative commissions or task forces charged with formulating recommendations under any of the above heads.

c. Identifying allies and stakeholders

National governments are not monolithic. The assessment should therefore identify those parts of central government that are particularly interested in promoting the decentralization of powers and resources to local bodies, while also determining which departments argue against it, for whatever reason. Rather paradoxically, the ministries with formal responsibility for decentralized administration or local government are not always those most in favour of devolving power (consider the case of Bhutan in the 1990s, for example, where the lead was taken by the National Planning authorities rather than the Home Affairs Ministry supervising local authorities).

Box A3: Empowerment or interference: suggested indicators

i. Are central representatives involved in local council activities or decisions?
ii. Is the centre involved in appointing or approving key local government civil servants?
iii. Does the centre insist on approving local authority plans and budgets at the beginning of the year?
iv. Are changes made to local plans and budgets, and if so, on what basis?
v. Does the centre fully earmark use of funds transferred, or does it allow some local discretion?

Box A4: Illustration of the contrast between two extremes of local government

a. Ugandan or Tanzanian district council: governing 500,000 persons or more, with several hundred employees (many at graduate level), a budget of several million dollars, clear statutory fiscal and legislative powers and responsibilities, etc., operating within a policy context highly conducive to local empowerment.

b. Guinean Communauté Rurale de Développement or Bangladeshi Union Parishad: governing 10,000-25,000 persons, with one or two low-grade employees, a budget of several thousand dollars, a loose mandate, operating within a more ambiguous policy context for decentralization.

There may also be other key allies, such as the National Association of Local Authorities, key NGOs, Parliamentary committees on local government.

3. Assessment of Local Government Institutions

The third dimension to be mapped relates to the capacities of local government bodies within the programme area itself.

LDP strategy is to focus primarily on those levels of the State most closely corresponding to local government, following country analysis of the sort outlined above under Section 1 of this Annex. One clear lesson is that local governments vary enormously.

As this contrast illustrated in Box A4 suggests, the institutions passing as local government in LDCs differ greatly, with considerable variations in capacity, accountability, viability and legitimacy. CDF experience points to the need to assess a range of issues – both problems and opportunities – in preparation for project strategy and design (see Box A4).

a. Legal basis

One of the first of these issues is the legal basis for the local authority. All things being equal, enshrining the role and powers of local government in the constitution (as in Uganda) is a stronger safeguard for autonomy and sustainability than basing them in parliamentary legislation, which can be easily revoked (as in Bangladesh). Legislation is, however, a stronger basis than mere ministerial decree. Whatever the legal basis, the clearer the definition of the functions, powers and resources of the local authority, the better.

b. Composition and political representation

Another key issue is the legitimacy, representativeness and local accountability of the political council or assembly. Is it wholly elected or partly appointed (appointees may often feel mainly accountable to their appointers) and, if elected, is this done through a reasonably competitive and fair political process? The following points outline some specific issues that have arisen:

i. **Role of traditional authorities.** Where some members of the body are non-elected traditional leaders, local accountability can still be maintained provided they are perceived as legitimate representatives (under the former Malawian regime, for example, traditional chiefs played an important representational role on district councils in the north; elsewhere they had lost credibility because they were believed to have been bought off by the MCP);

ii. **Party systems.** Some degree of local accountability can still be maintained even when political activity is dominated by a single party, if pre-election candidate selection embodies some degree of local choice (as is now reportedly the case in Viet Nam) or if the party maintains local credibility and a grassroots service ethos. Conversely, even in a multi-party system, local choice and accountability may be undermined by central party nomination of candidates or party lists (as in Senegal).

iii. **Basis for election.** There is an important difference between elections based on proportional representation/party list systems and those based on territorial or ward-based representation. In the former, ties between citizens and representatives are generally weaker, as elected members tend to be more attentive to party bureaucracy. It is possible to mix the two systems, although this can be cumbersome and expensive at the local level.

iv. **Direct election of council chairpersons or mayors.** While direct democracy might argue in favour of this (rather than the indirect election of leaders by council itself), there are risks that their disproportionate electoral mandate allows these leaders to dominate affairs (as with union parishad chairpersons in Bangladesh or district chairs in Uganda) or indeed enter into destructive rivalry with elected national parliamentarians from the same area.

v. **Members of Parliament.** The ex-officio involvement of national-level MPs in local government bodies is almost always a distorting influence (see Malawi and previous experiences in Bangladesh), as they tend to cater much more to local elite and factional interests or national party concerns than local government councillors.

vi. **Quotas.** Many local political bodies provide for quotas for women (Bangladesh) or 'minority' groups (e.g. scheduled castes in India, or youth and handicapped in Uganda). This is obviously valuable, but can be problematic, especially if representatives are simply appointed (reinforcing local patronage mechanisms), unless there are carefully designed mechanisms for competitive election for reserved seats.

vii. **Residency biases.** Residency requirements may exclude political participation by people with a legitimate stake in local affairs, such as seasonal migrants or pastoralists. Here there may be a need to provide compensating mechanisms for representation or consultation.

c. Functional mandate

LDFs aim to finance local public goods and services, typically, roads, health, education, water/sanitation, irrigation, power, etc. However, in any given LDC the mandate or competency of local government may be broad or narrow, clear or vague, and may or may not encompass this range of activities.[8] While some LDCs have adopted a 'general competency' principle, allowing wide latitude and initiative to local government (which is rarely matched by resources), other LDCs have imitated the more restrictive *ultra vires* principle, by which local governments may undertake only those functions expressly allowed by the centre. Specific issues to look for are:

i. **Range:** the range of mandated or permissive functions or sectors assigned to local government, and existence of *ultra vires* restrictions;

ii. **Basis of assignment:** the legal basis and permanency of assignment of these functions, enshrined in legal statute or in more easily reversible decrees, administrative circulars, etc.;

iii. **Clarity:** clarity of functions as related to definitions of infrastructure and service categories. For example, responsibility for 'primary education' may encompass anything from school maintenance to the construction of new schools, from payment of teachers' salaries to teacher recruitment and training, school inspection and definition of policy issues such as school building standards, acceptable pupil/teacher ratios, school fee requirements and, ultimately, to designing the curriculum! In UNCDF's experience, these are very rarely satisfactorily defined.

iv. **Overlap and conflict:** possible overlaps with the assigned functions of other government agencies or tiers (as in Tanzania between district councils and regional administrations; or in Nepal between some functions of the DDCs under local government legislation and those of the district line departments under ministerial decrees still extant).

v. **Agency functions:** finally, it is important to identify special functions that have been delegated to local governments as agents of central government, but which allow no local discretion in planning and resource allocation (e.g. management of technical colleges and hospitals by Ugandan district councils).

LDP experience is that lack of clarity or overlap of function tends to lead either to conflict, duplication of effort or inaction by all parties, and certainly undermines the accountability of local government. (Assignment of functions, clear or vague, without commensurate funding may be another major source of problems – see section F on Finance below.)

The extent to which local governments can reasonably be expected to assume their mandated or permitted responsibilities will depend very much on three further sets of issues: size of jurisdiction, staff, and financing.

d. Size of jurisdiction

The geographic area and population of local government jurisdictions are important for several reasons.

i. **Viability of service provision.** A larger area or population allows or compels the local government to 'internalize' a greater range of externalities and spillover effects in its decision-making, justifying:

   a. More obviously, a broader range of infrastructure and service planning responsibilities: secondary as well as primary education, feeder roads as well as access tracks, etc.;

   b. Less often noted, greater depth of planning and policy competence within each service: decisions on new school investments and not just operation and maintenance of existing schools, etc.;

   c. Thus, for reasons independent of their respective technical and financial planning resources or their mandated or permitted functions, Ugandan districts (which usually have a population of over 500,000) can legitimately be entrusted with a far broader sectoral range and depth of planning competence than a Malian commune (population 15,000) or Bangladeshi union parishad (diameter 3-5 kms).

ii. **Participation and accountability.** LDP experience indicates that the viability of planning units or economies of scale in service provision may be overstated, and may also conflict with political participation, communication and pressures for accountability, which can be greater in smaller areas. Partly in recognition of this, some effort is now being made in Uganda to devolve various service provision responsibilities from districts to smaller sub-county levels.

iii. Ultimately, the larger the local government unit area or population, the fewer the units required and greater the staff and financial resources that can reasonably be assigned to local governments, and closer the monitoring, support and control that can be exercised.

e. Staff

If a local authority is to undertake planning and management of infrastructure and service delivery, it obviously needs an 'executive' capacity to do so. Elected councillors are generally part-time and not necessarily technically qualified for such tasks; and there are huge variations in local government access to or control of locally deployed civil servants. Several issues need to be considered:

i. **Access.** The most immediate question is whether there are actually any staff on hand that the authority can call upon. Usually, even small authorities have some sort of clerk or secretary at their disposal for very basic administrative functions. Larger authorities may have their own core planning, finance and works officers and even a whole range of line departments, mirroring central ministries. The extent of such access clearly determines the range of activities that the authority can undertake. To a degree, local authorities may be able to compensate by turning to external sources of expertise and hiring consultants or NGOs, but while these may act as 'agents' they can rarely replace the role of permanent executive staff that any 'principal' requires.

ii. **Coordination, supervision or control.** The proximity of such staff may not ensure real access to their services. It is therefore key to determine their relationship with the local authority. A few core staff are often directly employed by the local authority, and are therefore at its full disposal. In rare cases, such as Uganda, and perhaps Malawi in the near future, the whole panoply of local line department staff is also employed directly by the authority. It is much more usual, however, for line staff to be in the employ of parent ministries, with the local government enjoying a greater or lesser degree of dual supervision or coordination, in which case staff loyalties and sense of accountability are more likely to be to head office rather than local councillors. The extent of such real control is therefore also a determinant of local government capacity for autonomous action.

iii. **Political appointments.** In Nicaragua, as elsewhere in Latin America, senior local civil servants are appointed by the majority party after winning an election. This clearly affects the workings and continuity of the local executive and, more pragmatically, should be recognized in the cycle of training and capacity building activities.

iv. **Local government civil service cadre.** The quality, career incentives and perhaps morale of local government civil servants will probably be enhanced where they are part of a specific local government corps that regulates their conditions of service and protects their interests. However, it appears that no such arrangements exist in the LDCs where UNCDF is operating.

f. Finance

Local governments must finance their service activities through (a) locally-raised revenues and (b) funds transferred from the centre or from other tiers of government. The adequacy of these financing arrangements is central to local government capacity and viability, and their design is also key to accountability.

Local revenue mobilization

Local governments in rural areas in LDCs typically have an inherently very weak tax base, which is, in comparison to the urban or national tax base, by its nature (a) unresponsive to growth in local economic activity, and (b) both expensive and politically hard to collect. It is important to ascertain just how problematic this issue is – and what scope there is to improve performance and efficiency – by examining the following questions:

i. **Tax sources allowed to local government.** There is a range of questions to be explored here, which may form the basis of policy dialogue with central government:

- *Range and variety.* A wider variety of sources provides a less vulnerable tax base;
- *Legal basis for tax assignment.* It is important to determine whether local governments are mandated to collect particular taxes or can themselves decide which sources they wish to exploit;
- *Buoyancy and variability.* The extent to which the assigned tax bases adjust to changes in population, inflation and real income, or remain stagnant should be gauged;
- *Discretion in setting tax rates.* Local governments often need to seek central approval to adjust local tax rates. Such approval is often arbitrarily withheld, discouraging local initiative and ensuring that tax revenues lag far behind inflation;
- *Discretion in using tax proceeds.* Finally, there may be questions regarding the freedom with which local governments may use the proceeds of particular sources of tax revenue. The less the discretion they have, the less chance there is for local accountability.

ii. **Tax collection performance.** Another range of questions relates more directly to local revenue administration capacities, which may be an area where technical support can be provided (through training, simple computer database systems, etc.):

- *Tax registers and assessments.* Many local governments find it difficult to maintain an updated register of taxable households, businesses, lands or properties, and so are unable to exploit the taxable potential of the area. They may also have problems computing the annual assessment of household or business incomes or property values, and thus calculating the taxes due;
- *Mode of collection.* How are taxpayers notified, and who collects taxes? If tax collection and assessment are done by the same person (as is the case in many LDCs) there is greater scope for collusion and abuse;
- *Collection costs and efficiency.* What are the costs of collection, and are they significantly lower than tax proceeds?
- *Tax revenue monitoring.* How does local government track the monthly progress in tax revenue collection, compare it with targets and take corrective action where required?
- *Enforcement.* What are the procedures for billing taxpayers, notifying defaulters and compelling payment of tax arrears?

iii. **Service charges and cost-recovery mechanisms.** There is often considerable unexploited potential for raising revenues from users of specific services (water, education, markets, etc.) through some system of user fees. Local authorities often have greater latitude in this than with taxation *per se*, but are sometimes hesitant to pursue it due to real or perceived conflicts with national service provision policies and fears of local resistance (which can frequently be overcome by careful information dissemination and issuing accounts explaining how revenues were used.)

Central-local transfers

Nowhere in the world are local governments financially independent of central government (except in places like China or Viet Nam where for a period of time net fiscal transfers actually flowed to the centre, due to local authorities being allowed to collect taxes normally reserved for central government). In LDCs in particular, the political economy is such that the bulk of national tax revenues are levied on the types of transactions (such as international trade) or incomes (corporate or formal sector) that can only be collected centrally. Local-level public expenditures in predominantly rural areas will therefore continue to be financed primarily by fiscal transfers from the centre, which are required to compensate for this 'fiscal gap'. Occasional references to attaining local government fiscal self-sufficiency are unrealistic, at least in rural areas. Furthermore, there is no automatic relation between the degree of fiscal reliance on the centre and local autonomy; the real issue is the terms under which central financing is provided. It is useful to examine the existence of or interest in:

i. **Tax revenue sharing arrangements.** In some rare cases in LDCs a fixed share (or even all) of a national tax is remitted to local government, either through some formula (thus constituting a variant of a central grant) or on the basis of area derivation (creating greater collection incentives if collected by local government, and somewhat enhancing scope for accountability, but generally inequitable). One variation of this is to allow local authorities to add a surcharge to locally collected national taxes;

ii. **Central grants.** It is important to examine any existing central grant funding for local government (rural or urban), as well as past experiences, since the development of a grant mechanism is after all the strategic objective of all LDFs. Issues to examine include:

- Volume and annual variability;
- Degree of discretion or conditionality in using the grants: inter-sectoral, intra-sectoral, 'programmatic', or for specific local facilities or projects; purely recurrent or capital expenditure; etc.;
- Extent to which use of the grant is in fact pre-empted by existing local expenditure commitments (typically, teachers' salaries);

- Basis for allocation: formula-based, 'gap-funding', or discretionary decisions by higher authorities; annual or multi-annual;
- If formula-based: adequacy of formula, compliance of actual releases with formula outcomes, and actual use of the formula;
- Use of matching approaches;
- Procedures for and timeliness of approval and release.

Borrowing

Most rural local governments have no borrowing capacity, and local government loan agencies are anyway largely defunct. Of more relevance is the ability of local governments to access overdraft facilities with local banks or government agencies, to allow them to deal with the monthly cash flow shortfalls that often arise due to seasonal variations in tax revenue.

Financial accountability

There is a broader political dimension and a narrower accounting dimension to financial accountability.

i. **Political accountability for use of funds.** These local pressures only really apply to the extent that local governments have used their discretionary powers to make choices in raising or spending funds, which may often be only partly the case;

ii. **Accounting and auditing.** More simply, it is important to verify whether local authorities produce accounts; and if so, whether they are satisfactory, properly inspected or audited and if any action is taken when problems are identified.

Finally, the extent to which local authorities actually publish or might publish their budgets and accounts at local council offices, markets, hospitals, the press, etc., should be explored.

g. Legislating powers and dispute resolution

It is important to establish the spheres within which local government may legislate through local by-laws (with penalties, fines, etc.), and the powers it is granted to enforce compliance. Possession of such powers is important in determining local legitimacy and, specifically, in allowing direct or indirect local government involvement in the regulation and management of local common pool natural resources (forest areas, pastures, water bodies, etc.), whose degradation is often a result of failure to enforce the rules.

Without such powers, it will be more difficult for local authorities to manage or regulate any common property infrastructure for which it is responsible (markets, ferries, etc.).

A related issue concerns the responsibility of local authorities in basic dispute resolution and adjudication. In many countries disputes over land, spousal abuse, etc. constitute major local governance problems, especially for the poor and marginal groups in remote rural areas who have less chance of recourse to the formal justice system. If local governments are formally empowered to intervene (as they are in Ugandan subcounties), this may be an important opportunity for external support to enhance their effectiveness and legitimacy.

This is an area where there may be considerable scope to further develop activities to promote improved local governance.

h. Internal organization

Local governments, as distinct from deconcentrated administrative committees, can be quite complex organizations. As such, it is useful to map out their organizational structure in order to better understand the potential for, and likely constraints to, the introduction of modified and more rational planning, management and implementation systems, and greater accountability. Bearing in mind the fact that organizational models for the local legislature and local executive branch vary in the extent to which they reflect the political/constitutional tradition, key general areas for consideration will be:

i. **Council leadership or executive.** Since the full council generally meets quite rarely, routine business and leadership powers are usually delegated to an executive authority. This is typically a chairperson, voted by council or directly elected into office. The accountability of such executive institutions requires some scrutiny, particularly where they are directly voted in by constituents and may thus wield far greater power than regular council members;

ii. In larger councils the chairperson will generally be assisted by an executive committee – a small group of councillors, generally voted in by council, which is responsible for oversight of sectoral affairs;

iii. **Committee system.** Standing committees composed of selected councillors and key civil servants are the key planning and management organs in local government systems derived from the British tradition, and are also the main interface between local politicians and bureaucrats. It is important to assess how they function, the clarity of their remit, how their deliberations are recorded, how often they meet and the cost of participants' allowances. All things being equal, there is a greater chance that improved, accountable systems whose outcomes are regarded as legitimate will be adopted if meetings are held regularly and are well attended and well documented. (There is also the question of the suitability of the committee system for managing regular business in large rural areas, where local councillors regularly have to travel long distances to participate in meetings);

iv. **Core staff and relations with civil servants.** Effective working relations and trust between politicians and their key staff (chief officers, planners, finance officers, clerks, etc.), and accountability of the latter to the former, are naturally very important. This issue should be investigated and warning indicators noted (history of frequent staff turnover, disputes, firings, etc.). The accountability of staff to local elected representatives increases when they are hired and paid by the local authority;

v. **Planning and budgeting systems.** Where such systems exist, it is important to understand current prescribed procedures and practice. That is, in countries with a tradition of local government, some form of basic planning and budgeting process and timetable will be in place. Clearly, any improved system should build on these, while aiming to establish closer links between planning and budgeting, and capital and recurrent budgeting, which are all too often undertaken by separate bodies and insufficiently integrated. Factors contributing to effective local planning should also be identified:

- clarity and consistency of local development priorities;
- consultative mechanisms between local authorities and communities, and between local authorities and technical line departments;
- adequacy of data availability (especially from line departments), analysis and retrieval (including basic maps and population data);
- knowledge of funding resources available from various sources, and activities of projects or NGOs in the area;
- technical abilities to develop, vet and cost proposals;
- abilities to appraise and rank competing proposals;
- abilities to set up work plans, budgets, etc.;

vi. **Procurement systems.** Similarly, local governments often use a certain amount of current funds for procurement (materials, subcontracting). Existing procedures and practices should be assessed and constraints identified (typically, ceilings for local contract awards that have not been adjusted for inflation for many years, or overly complicated contract documents). It is useful to cross-check with local contractors;

vii. **Financial management, accounting and control systems.** Finally, existing arrangements for internal financial management, accounting and control should be assessed to gauge whether expenditures are actually determined by budgets, how these are accounted for and monitored, how budgeted revenues are accounted for and monitored, what parties actually scrutinize the accounts (finance officer only, finance committee or the council?), availability of accounts for scrutiny, etc.

i. Relations with other local agencies

One essential dimension of local governance is the relations between local government and other local agencies (private operators, NGOs, community bodies, etc.). Do they collaborate, compete or regulate and check each other; are they even aware of each other's activities, etc.? Often – but not always – these relationships are shrouded in reciprocal ignorance and mistrust. Therefore, it is important to gain some measure of the degree and nature of interaction between local authorities and other local agencies, and identify the constraints to healthy interaction (perceived competition for funds by NGOs, suspected partiality of councillors to certain local firms, community bodies ignorant of council activities, etc.).

j. Relations with central government and trends

Finally, and critically, the overall central-local relationship needs to be assessed: does the centre empower or frustrate local government? Of course, this is a cross-cutting theme that runs through many of the issues highlighted in preceding sections, and conclusions will rarely be clear and unambiguous. Nonetheless, some key questions to consider in an overall assessment are outlined below:

i. Are central representatives involved in local council activities or decisions?

ii. Is the centre involved in appointing or approving key local government civil servants?

iii. Does the centre insist on approving local authority plans and budgets at the beginning of the year?

iv. Are changes made to plans and budgets, and if so, on what basis?

v. Does the centre fully earmark the use of funds transferred, or does it allow some local discretion?

It has to be said that there are few LDCs – indeed few countries anywhere – where the centre consistently empowers local government. What is probably most important is to identify changes and trends in the relationship, determine where improvements are taking place, and highlight inconsistencies between declared policy, formal legislation and practice.

Annex to Chapter 3: An Example of a Multi-Criteria Prioritization Tool

(from the Timor-Leste Local Development Project)

The Note below is intended for use by Sub-District Development Committees in Timor-Leste to help rank and select proposals from different sectors.

This Technical Note will provide you with an explanation on how to use the proposed Multi-Sector Multi-Criteria Prioritization Matrix as a tool to make decisions on which projects are priorities in your Sub-District/District.

The tool is to be used for a prioritization of all Village Council/SDDC and combined sector department project proposals (described in detail in their respective Project Documents) for all sectors.

Remember, you will receive a lot of proposals, and even though every member of your council might have a priority project, they might not be the same project. It will therefore probably be difficult to agree on only a few priorities for the whole Sub-District/District. This prioritization matrix will help you to make a neutral analysis of each proposal, and based on several pre-discussed criteria you will be able to make a neutral decision based on facts. This will help you explain to others how you prioritize between the proposals, and on what grounds one was better than another.

How to use the Multi-Sector Multi-Criteria Matrix?

The objective of this exercise is to compare all projects with each other from all sectors. The logic in this Multi-Sectoral matrix is the same as described in the Sector Matrix, the only difference is that it includes all proposals (cross-sectoral), and it also takes into account several new criteria, including the results from the Sectoral matrix.

1. The first step in this exercise is to list the criteria in the matrix. These criteria have been chosen because they give us a good indication of how important one project is compared to others. The table below demonstrates this:

Table 1

Criteria		Justification/Explanation
Criterion 1:	Village/Sector priority ranking	This criterion takes into account the actual ranking from the proposer, and ensures that the proposer's opinion is included.
Criterion 2:	Sector ranking (the result from the Sector Matrix)	This criterion will indicate the priority given within one sector.
Criterion 3:	Cost per beneficiary household	This gives a good indication if the money is efficiently used or not. A lower number is better.
Criterion 4:	Number of women beneficiaries	This gives a good indication if the project takes into account the needs of women, who can often be a disadvantaged group.
Criterion 5:	Local Contributions (in percent of the total project cost)	This gives a good indication from the community if it feels committed to the project.

2. Next, you have to list all your projects in the matrix below in table 2, and give each project proposal an ID number (For example, A, B, C, D, etc.) and a name:

Table 2

Village/ sector	No	Project name	Criterion 1	Criterion 2	Criterion 3	Criterion 4	Criterion 5
			Suco/SD sectors' priority	Sector ranking	Cost per beneficiary household	Number of women beneficiaries	Local contribution

3. When you have listed all the different proposals that you have received, you will have to insert the information requested for each criterion in the matrix. If you have prepared your Project Documents in a satisfactory way, all the information you need to prepare this Sector Multi-Criteria Matrix should be found in the Project Document. We have prepared one example for you in Table 3.

Table 3: Multi-Sector Multi-Criteria Matrix

Village/ sector	No	Project	Suco/SD sectors' priority	Sector	Cost per house-hold	Number of women	Local contrib-ution
Lolotoi	A	Rehabilitation of primary school classroom	1	2	$ 83	?	20%
Lolotoi	B	New primary school classroom (grade 4)	2	3	$ 285	?	-
Lolotoi	C	Rehabilitation of health centre	3	2	$ 110	250	4%
Abiba	D	Rehabilitation of primary school classroom	1	2	$ 50	?	4%
Abiba	E	Water supply system for aldeias 4 and 5	2	2	$ 30	130	11%
Nampo	F	Furniture for primary school (4 classes)	1	1	$ 21	?	30%
Nampo	G	Rehabilitation of primary school classroom	2	4	$ 62	?	8%
Nampo	H	Rehabilitation of health centre	3	3	$ 110	150	10%
Zama	I	Water supply system for aldeias 1,2 and 3	1	1	$ 15	220	14%
Zama	J	New primary school classroom (grade 5)	3	3	$ 330	?	5%
Koliko	K	Furniture for primary school (3 classes)	1	1	$ 22	?	25%
Koliko	L	Rehabilitation of health centre	2	1	$ 100	200	5%
Bardia	M	Water supply system for aldeia 2	1	1	$ 25	110	22%
Bardia	N	Rehabilitation of primary school classrooms (grades 3 & 4)	2	2	$ 133	?	10%
SD sectors	O	Construction of market shed in Lolotoi	2	2	$ 10	?	-
SD sectors	P	Construction of concrete ford	1	1	$ 25	?	-

4. After filling in all the required information into the matrix (like we have done in table 3), you can start to compare each project against each other within each criterion. This comparison should be based on the following:

Table 4

Criterion 1:	Only projects that were ranked as priority No. 1 from the proposer should be counted.
Criterion 2:	Only projects that were ranked a priority No. 1 from the Sector matrix should be counted
Criterion 3:	Only a maximum of the four highest scoring projects (lowest amount per beneficiary household) should be counted
Criterion 4:	Only a maximum of the four highest scoring projects (highest number of women beneficiaries) should be counted
Criterion 5:	Only a maximum of the four highest scoring projects (highest % contribution of total project cost) should be counted.

As you can see, except for the first two criteria, only the four highest scoring projects are counted when you do the comparison between the projects. For Criteria 1 and 2, it can be more or less than four projects, depending on how many have been listed as priority 1 by the proposer.

5. The identified projects that receive the highest scoring should be counted as follows:

Table 5

Criteria	Best projects
Criteria 1 - Village/Sub-District sector priority	A, D, F, I, K, M, P
Criteria 2 - Sector ranking (the result from the Sector Matrix)	F, I, L, M, P
Criteria 3 - Cost per beneficiary household	O, I, F, K
Criteria 4 - Number of women beneficiaries	C, I, L, H
Criteria 5 - Local Contributions (in percent of the total project cost)	F, K, M, A

6. Once the highest scoring projects have been included in the table (as in table 5), you will have to count the number of times they are mentioned in this table. To follow our example, this is done in table 6:

Table 6

Project Number	How many mentions?
Project A	2
Project B	0
Project C	1
Project D	1
Project E	0
Project F	4
Project G	0
Project H	1
Project I	4
Project J	0
Project K	3
Project L	1
Project M	3
Project N	0
Project O	1
Project P	2

7. To identify which project scored highest in the exercise, you simply have to count the projects that were mentioned the most in the table. The projects with more mentions score a higher priority than those with not many or even zero mentions. The final prioritization list can be as follows:

Table7

Project Number	How many mentions?	What is the priority?
Project F	4	1
Project I	4	1
Project K	3	2
Project M	3	2
Project A	2	3
Project P	2	3
Project C	1	4
Project D	1	4
Project H	1	4
Project L	1	4
Project O	1	4
Project B	0	5
Project E	0	5
Project G	0	5
Project J	0	5
Project N	0	5

8. When this exercise is completed, you will have a prioritised list of projects. You can base your further selection of projects to fund on this list. However, you will now have to take the total funding available and the cost of your identified projects into consideration.

For example, you might not want to select the first priority because it might be too expensive, or you will choose to fund priority 1,2 and 4, because even though 3 is ranked higher than 4, there might not be enough funds available to include this project during the first year of implementation.

Notes

Introduction

[1] "Investing in Development: A Practical Plan to Achieve the Millennium Development Goals", the Millennium Project Report to the U.N. Secretary General, 2005.

[2] Further details of the LDP Portfolio, and related reports, can be found at www.uncdf.org. Case studies on successful innovations in Africa and Asia can be found at: http://www.uncdf.org/english/local_development/documents_and_reports/thematic_papers/index.php

[3] OECD/DAC (2004) Lessons Learned on Donor Support to Decentralization and Local Governance, pp25, 52 http://www.oecd.org/dataoecd/46/60/30395116.pdf

Chapter 1 (with annex)

[1] Remembering the classic distinction between institutions as norms and institutions as organizations formulated by Norman Uphoff in "Local Institutional Development: an Analytical Sourcebook with Cases", Cornell University Press 1997.

[2] See Empowering the Poor and Africities, etc.

[3] Empowering the Poor, etc.

[4] Source: communication from Henrik Larsen, then UNCDF Programme Officer in Nepal, now UNDP Decentralization and Local Governance Policy Adviser for Asia.

[5] One measure that is often used is "share of total government expenditures at sub-national level". However, this begs the basic question of local discretion in these expenditures, and may be quite misleading.

[6] This distinction was first introduced in a seminal article by Rondinelli, D.A., J.R. Nellis and G.S. Cheema, Decentralization in Developing Countries, World Bank Staff Working Paper No. 581, World Bank, Washington, D.C., 1984.

[7] Note: Levels are notional and may, for example, be province/district/ward or région/département/commune/village.

[8] It is worth briefly noting the issue of single-purpose local authorities. A number of industrialized countries have removed certain functions from local governments and assigned them to special boards or authorities with specially delineated areas of jurisdiction (e.g. education in the USA, police and water in the UK). This has been justified primarily for 'technical' reasons related to the need to 'internalise externalities' of service provision, or to gain economies of scale. Interestingly, somewhat analogous arguments are made by adherents of the public choice school of thought for defining 'special service provision areas' in LDCs, inspired by considerations of subsidiarity and 'polycentricity'.

Chapter 2

1 Here, the term “francophone countries” is used as shorthand for all countries that have adopted a single treasury system to manage public finance. This is a simplistic characterization: as many non-francophone countries also use such a system, while a number of francophone countries have abandoned it.

Chapter 3

1 The Public Expenditure Management Handbook published by the World Bank in 1998 is the standard presentation of this more complete framework.

2 Although it should be noted that, to a large extent, such capacities can only be really built up ‘on the job’ through the actual process of decentralization – see Chapter 5 on Capacity Building.

3 Based on World Bank Public Expenditure Management Handbook, p. 32.

4 “Le conseil rural élabore le plan local de développement et donne son avis sur tous les projets de développement concernant tout ou en partie de la communauté rurale”.

5 “La commune élabore et adopte son plan de développement. Elle veille à son exécution en harmonie avec les orientations nationales en vue d’assurer les meilleures conditions de vie à l’ensemble de la population”.