

# **DELIVERING THE GOODS**



## **BUILDING LOCAL GOVERNMENT CAPACITY TO ACHIEVE THE MILLENNIUM DEVELOPMENT GOALS**

*Executive Summary*

**A Practitioner'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**

**Executive Summary**



**UNITED NATIONS CAPITAL DEVELOPMENT FUND**

Copyright © June 2007  
United Nations Capital Development Fund  
Two United Nations Plaza, 26th Floor  
New York, NY 10017  
web: <http://www.uncdf.org>  
e-mail: [info@uncdf.org](mailto:info@uncdf.org)

All rights reserved  
First printing: June 2007

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

Authors: Roger Shotton and Mike Winter. This executive summary was edited by  
Duncan Fulton.

Photography and design: Adam Rogers / UNCDF

Full book available as:

UN Publications Number: E.05.III.B.21

ISBN: 92-1-126172-4

# INTRODUCTION

## **The Context – the challenge of delivery**

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.

Two essential components of such a strategy, it is widely agreed, are

- a major increase in funding for public investments, for poor people and in poor areas.
- and also 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.

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.

This basic infrastructure, it is also accepted, is most appropriately delivered locally, through decentralized financing, planning and delivery systems. Local government bodies should play a key role in this.

The challenge is then to devise or to reform local government systems, to ensure that resources allocated for local public expenditure on pro-poor investments are used effectively, efficiently, equitably and accountably.

## **The Knowledge Gap**

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.

There is indeed a growing body of frequently-cited good practice in local infrastructure and service delivery: the innovative experiments

in participatory budgeting 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**

UNCDF has built up a portfolio of Local Development Programmes (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.

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<sup>3</sup>.

This summary version of a longer practitioner's guide sets out for the non-specialist UNCDF's experience, and presents a mix of analysis and lessons (positive and not so positive) derived from practice. It aims to provide a framework of the issues which typically arise in such programmes, of their potential for meeting the development challenge, and to give a sense of the considerations, trade-offs, risks and nuances which have to be taken into account.

The following are the questions addressed in each section of the report:

### ***1. Local Development Programme Strategy***

- How did the Local Development Programme approach originate, and what challenges is it designed to meet?
- How does the local context influence the way an LDP works (who is involved and what it aims to achieve)?
- What factors in the context determine the policy impact strategy of an LDP?
- Which sub-national level of government to focus on?
- What are the problems and opportunities presented by particular local context?
- What institutional innovations do LDPs introduce?
- How does an LDP relate to the national level?
- How to decide where an LDP is to operate?
- How is poverty reduction achieved in LDPs?
- What are the strategies for targeting poverty?
- How to ensure that planning and budgeting locally actually deliver results for the poor?
- What are the limitations of LDP in reducing poverty?
- Conflict and Post-Conflict Situations – how can LDPs work in them?

## **2: *Financing Strategy***

- What is the broader context of central funding for local infrastructure and services?
- What is different about LDP funding, and how does it relate to fiscal decentralization policy?
- How to determine the size and allocation of block grants?
- How should funds be allocated?
- What should be the period and timing of block grants?
- How to effect funding and channelling to different levels?
  - Should local governments transfer downward part of their block grant allocation, as block grants to lower levels?
  - Should all lower bodies receive a block grant every year, or should there be selectivity?
  - How to determine the size of allocations to lower-level bodies?
- How to build performance incentives into a block grant transfer mechanism?
- What lessons are learned from introducing Performance-Based Funding?
- What are legitimate uses of Unconditional Development Block Grants?
- What local co-funding to expect? How to support local resource mobilization?
- How are funds managed and controlled?

## **3: *Local Public Expenditure Management***

- What are the general lessons about promoting participation in local PEM?
- How to characterise the local planning process (LPP)?
- How does the local planning process (LPP) fit in?
- What are the generic steps in the LPP and what are the lessons, issues and tools derived from LDP experience for each of them?
- What are the results of LDP experience in devolving responsibilities for implementation?

- What about corruption and malpractice in implementation?
- What are the typical O&M problems and their causes?
- How has LDP strategy addressed these problems?
- What are the institutional management options for O&M?

#### ***4: Accountability, Communications and Information***

- What is the relationship between accountability and information?
- What role do LDPs play in improving information?
- What are the practical issues about availability of information?
- What are the main dimensions of accountability and what factors affect them?
- How can information be used to strengthen each of the three dimensions of accountability?
- How can LDPs give incentives for better communication?

#### ***5: Capacity Building***

- How do training and institutional development relate to capacity building?
- What are the typical local capacity constraints and responses?
- What are the general lessons of experience of local capacity building?
- What are the typical local personnel gaps? What kinds of measures and options best address them?
- What are the typical skills and awareness shortfalls, and how can they be remedied?
- What kinds of logistical and 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?





# I. PROGRAMME STRATEGY

## *What challenges are Local Development Programmes designed to meet?*

The Local Development Programme approach emerged as a strategy with a twin focus:

- improving delivery, through local government bodies, of local infrastructure and of services for poverty reduction,
- using this process to strengthen the capacities of these bodies, enhancing local accountability and promoting local partnerships.

More recently, a third ‘upstream’ area of LDP focus has emerged: using the innovations at local level as real-time policy experiments, as a lever to shift national decentralization policy and to support wider replication.

## *How does the local context influence the way an LDP works (who is involved and what it aims to achieve)?*

The LDP approach cannot be seen as a blueprint, as it needs to be tailored to each country context.

The key elements of programme strategy and focus to be tailored can be grouped under the following headings

1. Policy – how to make an impact on it?
2. Local Institutions:
  - Which to work with?
  - What kind of innovations to introduce?
  - How to relate to the national level?
3. Geographical – how to decide where to work?
4. Poverty reduction – how to ensure that LDPs contribute to it?
5. Conflict and post – conflict situations ; how can LDPs work in them?

**Box 1: The Local Development Programme: an overview**

**What is a Local Development Programme?**

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.

**What are the aims of Local Development Programmes?**

The LDP strategy is to build capacities through much more than 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.

**Where do Local Development Programmes mainly operate?**

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.

**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: trials 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.

**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.

**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.

**Cambodia (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.

**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: refining participatory planning and better integrating it with budgeting; extending piloting to the newer areas of local revenue enhancement and local administration of justice, while addressing more squarely issues of gender mainstreaming.

## I. Policy Impact

LDP projects are relatively small but seek to maximize leverage and impact on **four** domains of policy:

**i. Broad policy direction;** the options and direction taken by national political authorities in decentralization and local governance, which may or may not be consistent, well articulated and documented.

**ii. Legislation and the statutory framework.** National political direction articulated and implemented through legislation (such as a Local Government or Decentralization Bill - which may be vague or detailed, expressly designed or carelessly drafted).

**iii. The regulatory framework.** The detailed directives, regulations and circulars regarding, for example, the functioning of local government councils and arrangements for local government financial management and accounting – which is often imperfectly developed and may lag behind the development of policy and legislation.

**iv. Norms:** the systems, procedures, guidelines and practices that are officially accepted and promoted, even though they may not be uniformly adopted nationwide.

### *How policy develops*

The development of national policy on decentralization and local governance is not always a gradual linear progression from macro- to micro-policy. Changes in norms and micro-policy may lead to consequent changes in macro-policy. Successful experience in trials of local planning and financing on a limited scale may feed into the national policy debate by showing that ‘things can work’ at local level.

This sort of dynamic lies at the heart of the rationale for pilot programmes. Policy development in decentralization and local governance is a dynamic process, creating ‘ripples’ that may advance or reverse policy.

*What factors in the context determine the policy impact strategy of an LDP?*

***National political commitment to decentralization***

The extent to which there is a detailed national policy agenda for decentralization will decide between the *how to* and *whether to* element of decentralization policy debate as a target for impact on policy.

***Historical experience of local government***

Governments in countries with a long history of local government are not necessarily more committed to decentralization than newcomers. 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.

***Other donor activity***

Where there is support from other donors, LDPs need to ensure that their policy focus is synergistic. In Nepal, strong donor support for decentralization has resulted in an LDP that focuses on specific policy issues of local government finance and improving the more ‘technical’ aspects of the local planning process.

**2. Local Institutions and strategy**

*Which sub-national level of government to focus on?*

- Where higher-level 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. This is commonly the case 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. LDPs in countries like Mali, Senegal and Guinea have primarily focused on supporting communes, communautés rurales and communautés rurales de développement, respectively.

- Where viable local institutions already exist below local government, the strategy is to encourage planning activity at this level. For example, to the kebeles in Ethiopia, the VDCs and ADCs in Malawi, and the parish councils in Uganda.

*What are the problems and opportunities presented by particular local contexts?<sup>1</sup>*

- **Links between LGs and traditional authorities.** Where customary authorities play an important role in local governance (for example in land allocation), even though their democratic legitimacy may be contested. LDP strategy needs to ensure that these authorities are appropriately co-opted.
- **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.
- **Links for co-provision.** Where two or more tiers are jointly involved in service provision. In Mali for example, communes have responsibility for maintaining primary schools and health posts, while the regional education and health departments are responsible for staffing and equipping them.
- **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 - highly complex organizations with hundreds of staff, budgets of several million dollars, a wide range of responsibilities and many departments and committees.
- **Public expenditure management procedures.** Project strategies for innovation should take account of:
  1. **Precedent.** Many countries have long-established systems of local government (Tanzania, Bangladesh, Uganda) have well-

---

<sup>1</sup>A mapping methodology has been developed and is presented as an Annex to the full length guide. This exercise yields a range of problems and opportunities to be addressed by the institutional strategy of individual LDPs.

established planning and budgeting, to which only incremental change may be realistic.

2. **Making linkages between investment planning and recurrent budgeting.** Especially important where there is joint responsibility between different levels of LG.
3. **Local resource mobilization:** less significant in areas where local governments have few or very modest tax-raising powers ; no scope at all where there are no corporate bodies, but only de-concentrated committees, since the government cannot entrust tax-raising powers to such bodies.

**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.



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

*What institutional innovations do LDPs introduce?*

LDPs have experience of specific forms of institutional innovation covering rules and procedures. In terms of organization and structure, the main forms of innovation instituted in LDPs are:

- **Formalized community institutions below local governments – for downward accountability:** to promote community involvement and integrate traditional authorities.
- **Committee structures within local government – for horizontal accountability:** to promote more effective policy-making, planning and monitoring.
- **Coordinating and consultative structures above local governments – for upward accountability:** to promote more effective monitoring and technical support to local government by sector departments.
- **Coordinating and consultative structures between local governments** - to promote cooperation between local governments on policy or planning issues of joint concern.
- **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.

*How does an LDP relate to the national level?*

**“Anchoring” and partners**

Unless linkages with the national level are established, the lessons learned from LDP design and implementation may remain politically marginalized.

LDPs may be ‘housed’ within a 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 be housed in different institutions.

### **Other national partners**

Such links are usually necessary, but not sufficient, to ensure policy impact. LDP strategy also engages 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.

## **3. Geographic Strategy**

### *How to decide where an LDP is to operate?*

Much depends on the available budget but there are important strategic choices. Two sets of considerations are kept in mind when defining the geographical focus of an LDP:

#### **i. geographic-administrative coherence**

LDPs try to provide support to as many local government units (LGUs) as the budget allows within a given administrative area, because this is more likely to result in institutionalization. More selective approaches tend to compromise policy impact (working only in the “poorest” kebeles in North Gondar Zone in Ethiopia, for example).

#### **ii. trade-offs**

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

- **Spread vs backstopping.** There are clearly advantages to LDPs targeting a larger number of LGUs. However, there are also trade-offs in terms of the quality of support and ability to monitor and evaluate meaningfully.

- **Poverty impact vs policy impact.** LDPs frequently operate in remote rural areas, on the grounds that these are the poorest parts of most countries. There is a risk that the logistical difficulties associated with such areas, and their political marginalization, may detract from the policy impact and replication potential of LDPs.

#### **4. Poverty Targeting Strategy**

##### *How is poverty reduction achieved in LDPs?*

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.

##### *What are the strategies for targeting poverty?*

#### **1. favouring poorer regions and rural areas**

LDPs generally focus on rural areas within regions or districts and this reinforces the likelihood of poverty impact (see Box 4)

At the same time encouraging the two-way flow of goods, services and ideas between small towns and their rural hinterland is an increasingly important element of LDP strategy.

#### **2. 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** - primary health and education, drinking water, rural roads and tracks, etc., which are of relatively greater importance to the poor than to the non-poor. They are also less prone to local elite capture than more 'private' economic investments.
- **National poverty priorities (e.g. in a PRSP).** In some cases it is necessary to develop a special funding component to address specific

sorts of poverty reduction service or expenditure that will otherwise be neglected by local governments. Examples are environmental activities (see Box 5).

The downside of this sort of strategy is that it may both complicate and undermine the integrity of the local planning process.

- **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. For an example see Box 7.

***How to ensure that planning and budgeting locally actually delivers results for the poor?***

LDPs usually include more specific provisions to ensure a pro-poor strategy such as including people who are not always locally resident (such as nomadic herders in northern Mali or north eastern Uganda), weighting grant formulas to address poverty differences between areas, and remedial “affirmative” action where the interests and views of certain sectors are likely to be ignored or discounted (typically those of women almost everywhere, and of certain caste or religious groups).

As the example in Box 8 illustrates, however, there are often serious practical difficulties in implementing these types of strategy for affirmative action.

**Box 4. Poverty and Rural Areas**

- 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;
- The generally much higher ratio of poor to non-poor in rural areas (typically two or three times the same ratio in urban areas) means that, other things being equal, there is much less risk of mistargeting and of leakage of benefits to the non-poor;
- Rural areas are also home to small farm and related non-farm enterprises, an economic sector which is recognized as offering perhaps the best prospects of pro-poor economic growth.

### *What are the limitations of LDP in reducing poverty?*

It is important that the LDP strategy should be explicit about the limitations to poverty reduction that can be expected.

- 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.
- 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.

## **5. Conflict and Post-Conflict Situations**

### **1. Post-conflicts**

LDPs have 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 parallel institutions as mechanisms for

#### **Box 5. 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.

the delivery of “quick impact” public goods and services. Such parallel institutions are likely to be unsustainable;

- support the redefinition of more constructive centre-local relations, the inadequacy of which may have been a principal contributor to conflict in the first place;
- take a longer term view of reconstruction, 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, reducing the potential for disruptive conflict between different centres of power.
- **Local democratization**, by increasing the opportunities for citizen voice and empowerment, itself a source of legitimacy for the emerging state.
- **Local development**, through improving the delivery of and access to basic public goods.

**Box 6: 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.

**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.

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

- In **Mozambique** 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 on improving their efficiency and inclusiveness.

**Box 8: Affirmative action for dalits and women: Lessons from Nepal**

Under the LDP in Nepal, district development committees had agreed to allocate a minimum of 20 per cent 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 official 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 per cent for projects characterized as women/DAG-focused. However, 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 committees 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.

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

- The aggregate “20 per cent benefiting women and DAGs” has been re-specified as 10 per cent benefiting women and 10 per cent 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.

- The same will also be true of post-conflict Afghanistan, where 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 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 has been the case where central governments have felt relatively secure. In Uganda, a key plank of the state rebuilding 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.

## **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.

In the absence of elected representatives at the local level, and given the severe limitations imposed (by 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.





## II. FINANCING STRATEGY

*What is the current context of central funding for local infrastructure and services?*

### **Local Government Financing**

Typically local governments have four sources of funding for their service responsibilities:

- a. **Own revenue sources:** local taxes, levies, service fees, etc.. The revenues generated are typically low and stagnant, especially for LGs in rural areas, and can never hope to cover more than a fraction of the mandated service delivery costs.
- b. **Shared revenues:** tax revenues shared between central government and LGs, on the basis of origin, or through pooling and re-distribution between local governments, sometimes for a specific purpose, like sharing fuel tax for local road maintenance.
- c. **Loans.** While large urban authorities may be viable borrowers, poor rural authorities with little revenue capacity tend to simply sink into debt or have to default on their loans.
- d. The main sources of funds to complement own-revenue sources are transfers from central government (or development partners), or **inter-governmental fiscal transfers**.

### **Inter-Governmental Fiscal Transfers (IGFT)**

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.

Funds that do flow through local government fall into various categories of inter-governmental fiscal transfer (IGFT).

These annual grants may be:

- **Conditional, sector- or purpose-specific grants:** earmarked for specific types of local expenditure, with little or no local discretion (e.g. for teachers' salaries), or more generic, allowing greater local discretion (for primary education, for example).
- **Discretionary or unconditional block grants:** use of these may be determined by local governments.

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

LDPs generally aim to pilot a specific funding instrument: the unconditional or *discretionary block grant*.

There are two reasons for the LDP strategic focus on discretionary block grants:

- Decentralization of basic service functions to local governments is justified in part by their *greater knowledge* of local needs and priorities; and therefore requires *local flexibility* in resource allocation to exploit these advantages.
- Prevailing IGFT mechanisms are usually characterized by insufficient volume of resource flows, perverse design and failure to reflect international good practice.

**Contrasts With Other Local Funding Approaches**

- **Ownership of funds:** LDP resources are 'owned' by local governments, which make the allocation decisions;

**Box 9: 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.

- **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;
- **The nature of the budget constraint:** LDPs promote the discipline of the hard budget constraint by allocating a fixed, known amount;
- **Integration with the local budget cycle and process:** LDPs aim to integrate funding and budgeting within local government budget cycles and procedures, to ensure ownership and sustainability.

### *How to determine the size and allocation of block grants?*

#### *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.

#### *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. This represents a small 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. This requires some

**Table 1: 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.

part of the notional ‘pool’ to be set aside as a reserve for such allocations, usually 20-30 per cent.

***iv. Funds determine project area and size***

In practice the fact that project design is usually undertaken with a notional level of the project funding available, will often 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.

***How should funds be allocated?***

Because of the differences between local governments, whose resources and expenditure responsibilities vary, often greatly, *equal* allocations are not *fair* allocations.

Addressing this equity dimension is often known as the *Horizontal Allocation* issue. It is also a policy question, for which there is now a body of worldwide lessons and principles.

A great deal of attention has been focused on how to devise a formula. However, establishing the absolute pool size is far more important in determining what resources an individual LG will receive.

The formula should 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. *Poverty measures* are often used as proxy measures of both local fiscal capacity and local fiscal expenditure needs but these are also affected by unreliable data and in any case, the resultant computation may not be transparent or easily understood.

***What should be the period and timing of block grants?***

The arguments for multi-annual allocations are as follows:

- a. they provide the local government with a longer time horizon for planning and implementation;

**Box 10: ‘Sustainably modest’ funding: lessons on trade-offs**

**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 targeting of a few select poor villages or wards within the wider districts. This tended 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.

b. they provide more significant resources, and may allow larger, higher-impact investments than 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;
- b. central government’s own budgeting and financial management procedures may make it more feasible to institutionalize annual commitments.

***Should local governments transfer downward part of their block grant allocation, as block grants to lower levels?***

Many countries have a lower tier of local government and/or formal community institutions, such as village development committees.

When the lower levels are themselves *corporate local government bodies*, there are overriding arguments in favour of such onward transfers. These lower-level local governments also require regular and reliable access to funds to meet their own statutory obligations, and the block grant is the most efficient means of doing this.

In most countries there are also *lower-level administrative/consultative committees* 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

**Box 11. Horizontal Allocation principles**

- 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.** 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) towards fairness of treatment, given the differences in poverty-related expenditure requirements between LGUs.
- d.** It may also be justified to include a fixed sum in the formula, recognizing that there may be some minimum threshold of development 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).

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 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’; and
- b. more serious prioritizing, planning and commitment by these institutions.

However, there are also arguments against such downward transfers:

- 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;



- b. They introduce a bias towards very small local investment proposals and away from the more strategic kinds of investments;
- c. 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 will depend on weighing of these pros and cons by local stakeholders.

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.

*Should all lower bodies receive a block grant every year, or should there be selectivity?*

Possible criteria for selection 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. However, obtaining reliable and non-controversial measures for these aspects 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).

*How to determine the size of allocations to lower-level bodies?*

In practice, LDPs have favoured relatively generous downward transfers, generally ranging from **50% to 75%** of the higher-level block grant allocation.

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

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).

LDP experience also indicates that there is scope for more innovative ways of linking block grant allocations to LG performance in public expenditure management, and even in broader good local governance.

- The main 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.**

To ensure that minimum 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).** To encourage LGs to comply with the type of broader pro-poor and governance policy guidelines that are not written into statute or regulation.

**Performance and Accountability**

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.

**Box 12: 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. Poor information flows and weak downward accountability mechanisms in Ethiopia meant that this was not a serious local political problem with constituents, 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.

**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.

***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 LG staff may not be asked to report to councils; the public may be poorly informed about budgets and decisions and so unable to ask meaningful questions.

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

**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 must be:

- 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.

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.

#### **Instrument 2: Performance Measures (PMs)**

MCs can be matched with PMs as a twin element in tying funding to performance.

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.

#### **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*

Effectiveness of the instruments hinges on clear prior agreements with local government bodies, spelling out the ‘rules of the game’: expected performance standards and their implications, especially for funding.

**Box 13: 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 underperforming were disciplined in various ways, and some were even sacked.

***What lessons are learned from introducing Performance-Based Funding?***

The performance link to LG funding has proved to be an effective instrument in encouraging stronger LG performance. Nevertheless, several cautions need to be borne in mind.

***Limitations of linking funding to performance outcomes***

Ideally, it should be possible to tie funding of LGs to their success in achieving real 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.

However, it is not practical to attempt direct links between measures of such outcomes and annual block grant funding. This is because of the *high cost and complexity* of undertaking annual surveys of such outcome indicators in every LG area; and the ‘attribution’ problems that would arise, since LGs can often legitimately claim that such outcomes also derive from broader factors outside their control.

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.

### ***Institutional and policy context prerequisites***

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

- The degree to which local governments are accountable to citizens and have decision making power;
- The clarity of their responsibilities for service provision;
- The level of financial autonomy enjoyed by local government.
- The degree of local government control over staff.

### **Programme prerequisites**

- The programme needs to be institutionally well anchored within central policy-making bodies.
- In certain large countries such as Ethiopia, Tanzania and Mali, the LDP has been administered mainly at regional level, where the main concern has been implementation of infrastructure development. There appears to have been little policy impact in these countries.
- 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.
- 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.

*Need for clarity and consistency*

Although these PMs were successfully applied in Mali from 1999 to 2002, some 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.
- b. PMs linked to fiscal effort 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.
- 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;
- d. Performance measures that simply referred to the 'quality of commune financial and administrative management' were clearly far too vague to be of use as a criterion of performance.

*What are legitimate uses of Unconditional Development Block Grants?*

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**

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.

*Implications for the menu***Identifying legitimate expenditures**

Failure to recognize the difference between development and capital expenditures has probably 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).

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

The rationale of an unconditional block grant is to allow flexibility and local discretion in resource allocation, (relying on better knowledge of local needs and conditions, and greater accountability pressures deriving from decisions made locally and therefore defended locally).

This is 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.

*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* (private goods that society judges worthy of subsidizing with public funds), while private goods should be funded by private individuals, farms and firms. Theory cautions that allocating public funds for direct funding of private investments is to be discouraged, since:



**Box 14: 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'.

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

***What is the case for public funding of private goods?***

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'.

Despite these arguments, there is often local reluctance to use public funds for this type of investment probably because of limited technical expertise and political caution.

### **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 15).

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

##### **1. ‘Counterpart’ or Matching Contributions**

In most LDPs, external subsidies to LGs for capital expenditure have 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.

##### *i. Community contributions*

It is usually assumed that community contributions represent 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).

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. If the beneficiary public is much larger or more diffuse 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.

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 more likely to require cash contributions. If such cash contributions are too high, they are likely to penalize poorer communities;

**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.
- 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.

#### *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.

#### **Box 15: 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.

**Box 16: 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.

While this may seem a reasonable way of encouraging LG ownership, several cautionary lessons have emerged from such attempts to foster LG contributions:

- Raising the LG contribution from LG resources (e.g. local tax revenues) may result in considerable delays in subsequent implementation.
- 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.

**2. Direct Support for Local Government Revenue Mobilization**

Given the various problems associated with LG cost-sharing arrangements, 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.

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;

Promoting local tax revenue collection efforts may produce less obvious but potentially powerful benefits through local politico-institutional development.

There is 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.

### *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.** Promoting public awareness of the uses to which local revenues are put, to encourage payment and dispel cynicism. It is also important to support the information database of local governments themselves.
- 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.
- 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.

### *How are funds managed and controlled?*

#### **1. Release of Funding**

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.

## 2. Control and Auditing of LG Use of Funds

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.
- **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.

### *Limited national external audit capacities*

Many, but not all, countries 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. 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.

### *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.







### III. LOCAL PUBLIC EXPENDITURE MANAGEMENT

#### *What is 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. These reforms imply the development of institutional capacity at sub-national level, and new mechanisms to replace the former hierarchical central-local relations with new 'contractual' rules.

Developing this local PEM capacity is a key objective of UNCDF-supported LDPs. 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'.

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 procedures in the PEM cycle.

#### **Part I. Planning and Participation in Local PEM**

##### **1. Local strategic planning**

Local government strategic planning should not merely consist of preparing a medium/long-term planning document. A strategic local 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.

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. 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.

## 2. Local investment programming

Investment programming is meant to produce a statutory multi-year, rolling local investment programme (LIP), typically covering three or four years.

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.

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.

## 3. Local annual planning and budgeting

The main challenge is to see budgeting as one component in a multi-instrument local planning procedure within the broader PEM

### **Box 17: 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 critics argue 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.

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.

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 :

- the strategic objectives and targets of the local development plan;
- the recurrent expenditure implications of the local investment programme.

### *What are the general lessons about promoting participation in local PEM?*

#### **1. Participation and LDP strategy**

Participation is a much over-used word.

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

- 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 local decisions needed.

LDPs aim to achieve this in two ways by:

- a. 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.

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.

## **2. Costs of promoting participation and representation**

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

Although there can never be ‘too much’ participation, it can be very expensive in 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 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. This is because of:

- sparse settlement increasing travel and communication costs;
- more literacy problems requiring special measures;
- competing demands on time from livelihood activities.

These 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.

## **3. Bias and conflicts of interest**

Inherent difficulties include the facts that :

- 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. 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. 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.

## **Part II. The Local Planning Process**

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 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.

Against this background of differing views what is the type of local planning process (LPP) that LDPs aim to promote?

### ***The LPP in the wider context of planning instruments***

Provisions in local government legislation for the role and mandate of LGs are typically broad and general. In some cases local representative institutions to manage key stages or functions of the LPP cycle 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. However, Cambodia is probably an exception. Typically, it is not fully or clearly stipulated ‘who does what’, and planning institutions

**Box 18: 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-communecouncil currently being piloted.

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.

Typical Local Government Planning Instruments include periodic strategic or vision planning (every 3-5 years, depending on the size and type of local government; multi-year investment programming (a rolling two-, three- or five-year basis); and annual planning and budgeting (always a key mandated function of local government, with specified annual deadlines).

***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;
- Ensuring that planning decisions are reflected in the budget.

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 are needed to represent and aggregate the views and priorities of the public and act as bridges to local government, thereby greatly reducing the transaction costs of participation.

Where these bodies have some local legitimacy they represent a major organizational resource and have an important role to play in the LPP.

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 18).

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: 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,



**Box 19: 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

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.
- 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;
- Certainty of funding. The viability of these community planning institutions may be linked to the likelihood of access to funding. A recent evaluation exercise for the LDPs in Mali noted the risk of

**Box 20: 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.

participation in community planning tailing off where there is no certainty of proposals being funded.

## **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.

These bodies should play a key role in managing the LPP.

Where it is felt that existing local government bodies are inadequate and need reinforcement through institutional innovation there are various reasons for this:

- 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.
- 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.
- Local government bodies may not have sufficient technical expertise available to enable them to make informed planning decisions.

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.

## **3. Planning Roles in a Multi-Tier System**

Almost every country has at least two or more tiers of local government or deconcentrated administration. 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.

**Box 21: 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 investments because they fall outside their legitimate jurisdiction; and
- Instances where they need technical support to develop investments within their sphere of responsibility.

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, inconsistent or overlapping and possibly inappropriate:
- **Socio-economic externalities and spillovers.**
  - Where the potential beneficiaries of certain sorts of investment inhabit an area wider than the jurisdiction of the lower level;
  - Where investments form part of an interdependent network with ramifications beyond the lower level (such as water supply or drainage systems);
  - 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 would entail long-term recurrent budget expenditures or involvement for local government 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.

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.

#### 4. The Local Planning and Budgeting Cycle

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, undermining the accountability and transparency of local government.

*What are the generic steps in the LPP and what are the lessons, issues and tools derived from LDP experience for each of them?*

While there are great variations between them, certain key steps are common to most or all LPPs.

**i. Assessment of budgetary resources:** local government compiles its estimate of total revenues – from all sources - available for the next fiscal year. This should include estimates of local revenues and, very importantly, fiscal transfers from central government.

- It is 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; lack of synchronization is often a major cause of weakness in developing effective local plans.

**ii. Preliminary review, analysis and strategic direction:** local government reviews past performance, formulates strategy and provides broad direction to local and community planning bodies.

- 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).

**Box 22: 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 (subsidized 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.

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

- 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. Minimalist exercises may simply involve: Problem analysis using *focus group discussions* to elicit the viewpoints of different social categories, simplified *problem trees* etc; simple *ranking tools* for prioritization of proposals (preference and pair-wise ranking)
- Guidelines are also needed for community planning institutions - guidance defining purpose, membership, how to meet and work etc; and standardized proposal formats

**iv. Screening, development, costing and appraisal of feasibility** of proposals by local government sector and planning bodies; A range of appraisal issues that need to be examined is presented in Box 22.

**v. 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;

**Box 23: 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

- 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’ are not adequate.
- 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.

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

- The planning/finance committee of the local government level concerned should assemble the list of priority selected investment proposals and *identify appropriate funding sources*.
- There is a general tendency 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.
- Developing an 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



**Box 24: Gains from devolving responsibilities for implementation**

**Bangladesh:** Field verification of the construction of open face culverts revealed major differences between those provided under UNCDF supported LGDP 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 LGDP, 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 LGDP schemes were capable of producing structures 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 LGDP 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.

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.

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

- 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.

- 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.

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

As a final postscript, LDP experience suggests that the temptation to wish to doublecheck 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.

### **Part III. Investment and Scheme Implementation**

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.

There is some evidence that LDPs have been 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.

Implementation of schemes identified through inclusive planning can take much longer than expected, and sometimes result in poor-quality infrastructure.

Designers and managers need to pay rather more attention to the issue of implementation than they have in the past.

*What are the results of LDP experience in devolving responsibilities for implementation?*

**Devolving implementation responsibilities** can lead, through a more developed sense of local ownership, to improved efficiency, enhanced flexibility and better assets. 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 24 provides some illustrations of this from LDP experience.

### **Breakdown of implementation tasks**

Implementation tasks vary according to the type of asset/investment involved. A breakdown of the main tasks and the lessons derived from LDP experience:

#### **1. Clarifying ownership**

Although its importance is often ignored, the first basic task is to assign ownership responsibility for the 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.

- As far as possible, LDPs seek to situate overall responsibility for scheme implementation at the level of local government that is financing the scheme in question.

#### **2. Determining asset ownership**

Although investment ownership (*maîtrise d'ouvrage*) in LDPs is almost invariably assigned to the LG unit financing the investment, ownership of the asset produced by the investment is another matter.

- Certain types of asset produced by LG investments can be handed over to other organizations/bodies on completion, either irrevocably or conditionally; for instance 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 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.

#### **3. 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:

- a. Contracting work to a specialist agency, usually a private firm, contractor, engineer or craftsman usually on the basis of some kind of competition or rule-bound selection process;
- b. Delegated and direct execution by a community body or user group.

LDPs have accommodated and/or promoted both basic types of production/supply arrangement:

- 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 communitybased implementation option.
- The ability to use both basic 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.

#### **A. Contracting out to specialist producers/suppliers**

Contracting out to specialist producers/suppliers generally in the private sector, requires sound procurement procedures to obtain high quality goods and services at a competitive price.

#### **Tendering and competitive bidding**

In general, the more costly the asset to be produced, the more competitive the procurement process should be. The procurement of goods and services financed by LDP block grants is often undertaken through a range of tendering and competitive bidding arrangements intended to:

- Ensure transparency;
- Ensure that contractors are capable of carrying out works;
- Reduce the cost of investments.

**Box 25: Private sector capacity building in Tanzania**

In some cases it may be 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.

- Establish a relationship between owner and contractor that is output-based and tied to a timeline.
- These theoretical advantages need to be maximized through the design of tendering procedures aimed at transparency ( a wide range of stakeholders involved in opening bids; using standardized forms and scoring systems (including assessment of bidders' past performance), and making public the results of bidding.
- Maximizing competition should lead to controlling costs.

- 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 capacity building strategy.
- LDPs may have to provide capacity building support to contractors as a way of increasing competition through more bids. Box 25 illustrates this with a concrete example of LDP support to private sector contractors in Tanzania.
- There may be 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.

## **B. Delegated or direct implementation**

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. 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); full mobilization of local contributions and effective operations and maintenance;
- 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 be an effective way of contributing towards poverty reduction among the poorest;

- 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 backstopping and capacity building from local government or other sources. This can add substantially to the transaction costs of community-based implementation.
- (Potential) contractors or suppliers may be based far away, entailing high transaction costs for the community in dealing with them;
- 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'.
- 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.
- A final cautionary note: where this is the dominant or preferred form of asset production, 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.

#### **4. Technical Support, Supervision and Oversight**

As the investment owner, local government can source technical support in a number of ways: from (local) government technical staff, although there may be problems of enough competent technicians such as engineers in the system; or private (or NGO) services.

**Community oversight** also plays a role in ensuring 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.

**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.

## **5. Investment Co-Financing and Financial Management 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:

### **Box 26: 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.apjgam.com](http://www.apjgam.com)*



- 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. Experience has shown that it is best to avoid the need for contractors to depend on community-mobilized labour;
- 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.

*What about corruption and malpractice in implementation?*

Procurement of public goods and services is often seen as being particularly prone to abuse, malpractice and corruption.

This is not something that is alien to LDPs; given that LG officials (both elected and appointed) in LDCs are usually poorly paid, it is hardly surprising that opportunities for malpractice and corruption are frequently seized upon (or created by contractors). Malpractice can occur at two principal points in the implementation process:

**1. Prior to and during the award of contracts**

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. 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 27: 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)*

## Part IV. Operations and Maintenance

The purpose of infrastructure investments is to yield social and economic benefits or services to users. They must be adequately operated and maintained to unlock these.

### *What are the typical O&M problems and their causes?*

Malfunctioning and poorly maintained infrastructure and installations that fail to generate the intended service benefits may be explained by:

- a. **Inappropriate institutional arrangements.** Insufficient thought is 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,
  - These end users are 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. There is 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 for these reasons.

*How has LDP strategy addressed these problems?*

- 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;
- 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.

*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. Without adequate O&M, there can be little in the way of sustainable benefits. In this arena, experience to date has not been very positive, and there remains considerable room for improvement.

*What are the institutional management options for O&M?*

There are several institutional options for ensuring O&M:

**i. 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.

Whenever feasible, LDPs seek to promote (and strengthen the capacity of) operational management of community-based facilities by user groups.

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;
- There is an abundance of local management experience.

### **ii. Local government or sector department management**

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.

### **iii 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;
- 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.

### **Future Directions for Operations and Maintenance**

LDPs may need to explore the fact that :

- 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.



# IV. ACCOUNTABILITY, COMMUNICATIONS AND INFORMATION

## *What is the relationship between accountability and information?*

Accountability lies at the heart of any improvements in local government delivery of public goods and services. Indeed, the rationale for the LDP strategy is largely predicated on the greater potential for accountability in local government than in central agencies or NGOs.

Accountability is a key cross-cutting theme in local development. Information on local government activities and resources 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.

Local citizens in LDCs also 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.

## *What role do LDPs play in improving information?*

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

### **Box 28: 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.



significant provider of public goods and services, and thus more likely to be scrutinized by local citizens.

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.

### *What are the practical issues about availability of information?*

#### **The Physical Availability of Information**

Information has to exist in some kind of enduring form 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 Box 29).

#### **Box 29: 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 recordkeeping 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).

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 30).

**Box 30: 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.*

***What are the main dimensions of accountability and what factors affect them?***

There are three main dimensions of accountability:

- Downward accountability, of local government to citizens;
- Horizontal accountability within local government and administration;
- Upward accountability, of local government to central government;

**A. Downward Accountability**

The accountability of elected local governments to the citizens, voters, and community members under their jurisdiction.

LDP experience suggests that several factors may strengthen or weaken downward accountability:

***i statutory frameworks***

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.

***ii. Electoral mechanisms***

**Ward-based systems** (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*. 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.

***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 is 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 the strength of local civil society*

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.

**Information activities to strengthen downward accountability**

**1. Reviewing statutory obligations**

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.

**Table 2: 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.
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 (bylaws, 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 done and cost, in order to be able to assess LG performance.

Table 3: 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 audiovisual 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.

At the very least, therefore, LDPs try to find ways of operationalizing statutory provisions regarding the availability of information.

### **3. Making information publicly available – what and to whom?**

Table 2 provides a basic summary of the kinds of information that may need to be made publicly available, and to whom.

### **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 3 provides a brief summary of these, along with comments.

Two key issues to consider in determining which media to use are *Outreach* and *Cost*: 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.

#### **Box 31: 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.*

- 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.

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 31 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-formation (See Box 32).

### **Box 32: 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.



## **B. Horizontal accountability Between Branches of Local Government**

### **Information activities to strengthen horizontal accountability**

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, 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.

## **C. Upward Accountability**

### **Information for Higher-Tier and Central Government Oversight**

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 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.

**Box 33. Social audit, report cards and information**

Social audit or citizen report card (CRC) systems 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 fullblown 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.

***How can LDPs give incentives for better communication?***

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.

### 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.

#### **Box 34: Incentives for making information available**

**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.





# V. CAPACITY BUILDING

## *How do training and institutional development relate to capacity building?*

Strengthening local capacities is obviously key to attaining the goals of improving the delivery of local public goods and services by local governments and enhancing the broader context of local governance.

The term “capacity building” is used in many different ways: *the provision of basic equipment; training; and institutional development.*

## *What are the typical local capacity constraints and responses?*

The types of constraint that typically need to be addressed vary considerably. 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 4 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.

Within such a framework, training and institutional development then become measures or strategies for achieving the wider goal of capacity building for improved performance.

## *What are the general lessons of experience of local capacity building?*

### **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. 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.

**Box 35: 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.

**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.

**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.

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.

- 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.

**Table 4: Overview of measures to address constraints to local performance**

Capacity constraints to be addressed	Elements of a capacity building strategy
a. Human resource constraints.	<ul style="list-style-type: none"> <li>• Temporarily underwriting the cost of additional personnel, with a strategy for how this may be sustained.</li> <li>• Making funding conditional upon key personnel being in place.</li> <li>• Direct training of local personnel, or training of trainers.</li> <li>• Involving local personnel in real-time planning and management activities.</li> <li>• Developing guidelines, manuals and reference material.</li> </ul>
b. Material and logistical constraints.	<ul style="list-style-type: none"> <li>• Devising sustainable mechanisms to fund travel and related expenses for local personnel.</li> <li>• Provision of basic material support that is technically appropriate and within modest limits.</li> </ul>
c. Inappropriate or vague procedures, systems and rules.	<ul style="list-style-type: none"> <li>• Test, adapt, develop and extend more appropriate procedures, systems and rules.</li> <li>• Prepare simple guidelines, manuals and reference materials.</li> <li>• Train personnel (or trainers) in the use of these.</li> </ul>
d. Inadequate incentives.	<ul style="list-style-type: none"> <li>• Link funding arrangements to performance.</li> <li>• Improve information, communications and mechanisms for downward, horizontal and upward accountability.</li> <li>• Overall support for reform of the policy, legal and regulatory framework within which local government operates.</li> </ul>

- For example, 5-year planning cycles that cut across the time mandate of elected councils are unlikely to be well received, while over-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 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.



#### 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.
- 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.

It is 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.

The dimensions of capacity building concerned with the development of more appropriate institutional procedures, systems and incentives are dealt with in Chapter 3. This section focuses on two sets of CB measures:

- those addressing human resource (HR) constraints,
- and those addressing material and logistical constraints.

Two distinct types of local HR challenge are considered below:

1. human resource or personnel gaps;
2. human resource development: skill deficits and other training requirements.

**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;
- **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.

*What are the typical local personnel gaps? What kinds of measures and options best address them?*

Strengthening human resources at the local level is usually one of the most important and time consuming activities undertaken by LDPs.

1. LG performance may be compromised because key staff posts are unfilled or because there are simply no establishment provisions for the kind of personnel that are really needed.

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 include:

- 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.
  - 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.
2. 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’;
- Skills needed for adoption and management of the various innova-

tive institutional procedures and systems being piloted specifically by the LDP.

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, since they are not usually experts in this area, and

**Box 36: 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.

because it would distract them from their main role.

The ideal option is usually for host government specialist training institutes to provide as much training as possible.

However, this may not be feasible if such institutes themselves face severe capacity constraints. In some (admittedly extreme) cases, host country specialist training agencies may be only loosely accountable to either central or local government for their performance.

### **Training of trainers**

Where host country specialist training agencies do not exist or are judged to be inappropriate providers, 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.

### **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.

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:

- ‘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 per-

formance measures, rather than a systematic assessment of training needs.

- 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.

### *What kinds of logistical and material needs are to be addressed?*

#### **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.

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.

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.

#### **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.

***What kind of capacity building is required at national level?***

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.

**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.

---

To obtain the complete *Delivering the Goods* Practitioner's Guide, please visit the UNCDF website at <http://www.uncdf.org>, or UN Publications at <http://unp.un.org>.