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The Role of Local Governments
in Local Development

Pro-poor provision of infrastructure services

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Abstract

This paper discusses the role of local governments of the Least Developed Countries (LDCs) in the provision of infrastructure services. It is a key issue, because there is increasing evidence that a sustained investment in local infrastructure is a critical element for poverty reduction. Furthermore, economic growth and physical infrastructure have a potentially large impact both on poverty reduction and economic growth, provided local stakeholders are fully involved in decision-making processes and in the management and the maintenance of the infrastructure.

While central governments are unlikely to have the capacity to assess the diversity of local conditions or local requirements and capabilities, local governments have comparative advantages, because of their better knowledge of local needs and priorities, their proximity to local users, and the pressure of local constituencies for greater accountability and transparency. However, decentralized local governments have also a number of weaknesses, particularly because of the lack of clarity of the existing regulatory frameworks concerning their real responsibilities, inadequate access to financial resources, and vertical relationships with sectoral ministries, as well as a lack of financial and human resources.

This paper also reviews and analyzes major lessons learned by UNCDF over the last few years, within the context of Local Development Programmes (LDPs) supported in many countries in Sub-Saharan Africa, which provide local governments with a special role in favoring local development and in contributing to the achievement of the MDGs through the provision of infrastructure services. A number of innovations introduced and supported by LDPs – in planning, implementing, financing, and budgeting and capacity building – are briefly reviewed and analyzed, with a few examples taken from a number of Sub-Sahara countries where UNCDF supports local development.

“When suitably empowered with human capital, infrastructure, and core-human rights in a market-based economy, women and men can secure productive and decent employment through personal initiative. When infrastructure, health and education are widely available, poor countries can join the global division of labor in ways that promote economic growth, raise living standards, and increase technological sophistication. But when individuals and whole economies lack even the most basic infrastructure, health services and education, market forces alone can accomplish little.”

(UN, Investing in Development, Report of the UN Millennium Project, 2005)

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1. GENERAL EVIDENCE FROM CURRENT POLICIES AND PROGRAMMES

From the early 1990s, the policies put in place in many of developing countries, particularly in the Least Developed Countries (LDCs), and the results from a number of on-going programme/projects supported by multi- and bi-lateral organizations clearly present three pieces of evidence:

(i) A sustained investment in infrastructure\(^1\) is a critical element for poverty reduction and economic growth. This is particularly true in the context of Sub-Saharan Africa, where the productivity of other sectors is consistently affected by poor infrastructure services. It has been demonstrated that, for instance, infrastructure reduces the costs supported by the poor for basic utilities: for the same services (for example, access to drinking water), poor households living in not deserved areas pay between 5 and 16 times more than other households living in deserved areas. The poor pay a substantial proportion of the income (and of their time) to access basic services. The impact of infrastructure on poverty reduction has been even more effective when and where it has been assessed through the systematic use of qualitative indicators. Furthermore, if infrastructure services contribute to growth, growth itself contributes to infrastructure development. The World Development Report 2004 (Making Services Work for Poor People) warned that broad improvements in human welfare would not occur unless poor people received wider access to affordable and improved services in health, education, water, sanitation, and electricity: without such improvements in services, freedom from illness and freedom from illiteracy – two of the most important ways poor people escape poverty – would remain elusive to many.

(ii) The impact of physical infrastructure on economic growth and poverty reduction is important particularly when:

- Investment reflects local priorities, constraints and needs, and is crafted in a pro-poor way (for example, by creating employment, reducing costs and prices, integrating education and capacity building, designing subsidies which effectively target the poor, etc.).

- Accompanying initiatives are taken in other sectors in a co-ordinated manner.

- Parallel measures are especially taken on institutional reforms, in order to improve infrastructure’s contribution to pro-poor growth and to ensure transparency, accountability and fair competition, and to increase good governance and overcome special problems of corruption.

- Local economic actors are enabled to undertake adequate initiatives in respond to local demands.

- Emphasis is put on management and maintenance of infrastructure, including in terms of cost recovery, in order to secure and sustain investment.

\(^1\) The notion of ‘infrastructure’ refers both to ‘economic infrastructure’, that is water supply, energy, transport, telecommunication, sanitation and waste facilities, flood protection and drainage and irrigation, and to ‘social infrastructure’, that is schools, medical centers and hospitals, sports clubs and cultural associations.
• Transaction costs are reduced and trade flows are facilitated.

(iii) Infrastructure is likely to produce intended outcomes with the involvement of local stakeholders (primarily local governments) and the private sector: In fact, empirical evidence shows that infrastructure investment is particularly effective when local stakeholders are fully involved in the decision-making process and in the management and the maintenance of the infrastructure. The evidence is even stronger where:

• Parallel activities have been put in place to ensure the participation of the communities in selecting priorities and in implementing activities;

• Local non-governmental organizations (NGOs) have been created and enabled to provide key assistance to local stakeholders;

• The private sector may contribute to infrastructure provision in a clear administrative and technical framework;

• Local governments have a clear mandate within the context of a policy supporting democratic decentralization and receive clear responsibilities, resources and competencies, and are well informed. This factor is particularly important: by law, local governments are in charge of setting the overall pattern and framework for a number of domains, such as public transports services; land development, infrastructures which are not provided by utilities companies; all general public facilities; the particular problems faced by marginal and poor sections of the population (such as lack of roads; high rate of infant and maternal mortality; high rate of child mortality due to water-related diseases).

2. LOCAL GOVERNMENTS AND INFRASTRUCTURE PROVISION

2.1 COMPARATIVE ADVANTAGES OF LOCAL GOVERNMENTS

Central governments are unlikely to have the capacity to assess the diversity of local conditions or local requirements and capabilities. Their staff is more trained and experimented, but their services are also more remote and costly. In addition, from a macro-economic point of view, over the last few decades, insufficient resources have been allocated by national governments to rural infrastructure (roads, storage facilities, marketing networks, etc.) and social services (education, health, safe drinking water, sanitation, etc.).

On the contrary, local governments, with their legal mandate to manage local development and municipal finances, have comparative advantages in terms of knowledge of local situations, especially as far as marginal and poor people are concerned:

• They are better informed than the central government about local needs, more familiar with and more sensitive to them. They are also better placed to identify the poor, to respect local social identities, to value forms of collective action and self-help preferences, to support social inclusion, and to respond more efficiently to local variations in conditions, tastes, standards, affordability, location requirements and so on for services or infrastructure.
• By being better informed of local preferences and by better matching public services to them, local governments may improve the efficiency of resource allocation — by tailoring, for instance, outputs and services to the priorities of local constituencies.

• Local governments face democratic pressure from their constituents for ‘primary’ facilities (such as feeder roads, health posts, primary school classrooms, etc.), which tend to favor the poor, against large-scale investments (trunk roads, referral hospitals and so on), which rather tend to favor relatively more the non-poor. Local involvement in decision-making about infrastructure provision may ensure a closer political engagement of local people (including stronger pressure for responsiveness and accountability).

• As there is little scope for economies of scale for infrastructure provision operating at local level, local governments are in the best position to deliver service in an effective way.

• Compared to community organizations, they may better support large-scale poverty initiatives (aid agencies and development banks are unlikely to work with a large number of small, diverse organizations).

Briefly: local governments have greater allocative efficiency (in terms of capacity to allocate overall resources to better match local priorities and requirements) and higher productive efficiency (concerning the costs of delivering services). Effective and sustainable service delivery for poverty reduction may thus be expected when the leadership of local governments is recognized and when their ownership in the local development agenda is ensured.

2.2 PITFALLS OF DECENTRALIZATION, WEAKNESSES OF LOCAL GOVERNMENTS

However, the role of local governments is negatively affected not only by a number of pitfalls of decentralization policies and practices, but also by internal and external factors.

Decentralization pitfalls
• Decentralization laws usually include unclear mandates and frameworks for local government and a vague, inconsistent or changing legislation, and support unclear relations between local government and line ministries and generally, central government interference in local affairs and/or central neglect to the provision of guidance, support and resources.

• Decentralization can lead to increased levels of corruption as it can generate new forms of patron-clients relationships, and favor accumulation of power by local traditional elites or influential persons.

• Decentralization reforms may lead to a certain degree of inequity (e.g., when it fosters undesirable regional disparities) by making local governments responsible for the funding and delivery of infrastructure.

• The resources transferred to local governments in LDCs are very small: they hardly keep these administrations alive, and very little is left to the production of basic public services. In terms of infrastructure provision, some services are
better provided and more cost-effective when they are provided by sectoral administration on a large scale

Local governments’ weaknesses
- Local governments have inadequate human, financial and logistic resources and local government administrative staff usually lacks basic technical and managerial skills. This may have a direct negative impact on the quality of public services.
- Local governments have still to maintain vertical (and subordinate) relations with sectoral ministries and departments, where key decisions concerning local development are still made
- The functions assumed by local governments in infrastructure provision may collide with the role of community organizations and the civil society.

The result is that in many Sub-Saharan African countries, even when there are favorable legal frameworks, local authorities are not yet playing a meaningful role in local development and are not fully involved in the delivery of public infrastructure and services. Their policy-making and implementation powers are still very limited.

In many cases, instead of being recipient of powers and resources, local councils act rather as advisory bodies to the de-concentrated representatives of the state administration. In spite of clear reforms, local governments have very limited responsibilities in the delivery of public services, such responsibility being a key condition for the implementation of any meaningful initiative aimed at reducing social exclusion and alleviating local poverty.

However, what is clear is that local governments, by quoting the World Development Report 2004, “whether they fulfill (their) responsibility (for basic services for poor people), by providing, financing, regulating, or monitoring services or providing information about them, the basic functioning of government should underpin, not undermine, effective services”.

3. LESSONS LEARNED BY UNCDF IN INFRASTRUCTURE PROVISION

3.1 INTRODUCTION

The United Nations Capital Development Fund (UNCDF) is a special fund created by the General Assembly of the United Nations in 1966. Its mandate is to reduce poverty in the Least Developed Countries (LDCs) through local development programmes. For the last forty years UNCDF supported local development in LDCs, primarily in rural areas, through conventional ‘project mode’ delivery of basic infrastructure (such as water supply, irrigation systems, roads, schools, clinics). Strategy was then focused on working through local institutions – and primarily local governments – as channels for planning and managing infrastructure delivery.

However, as local authorities themselves require support and greater partnership with civil society and other local actors to take on this role, the UNCDF-Local Development Programme (LDP) approach – a coherent and flexible strategic tool - thus emerged as a strategy with a twin focus:
• Maintaining the objective of improved delivery of local infrastructure and services for poverty reduction, through local government bodies;

• Using this as a process for strengthening the capacities of these same bodies, enhancing local accountability mechanisms, and promoting local partnerships.

By addressing the multi-dimensionality of poverty, UNDCF supports local development in order to:

(i) Empower local stakeholders (by favoring the involvement of all categories of citizens, including women, in decision-making and in local politics and by removing local barriers and discriminations).

(ii) Provide pro-poor infrastructure and social services (by strengthening the specific roles of local authorities, of community organizations, of civil society and of the private sector).

(iii) Promote local economy (by supporting a sustainable management of natural resources, stimulating the economy, increasing economic growth and employment, and improving food security).

3.2 WHAT IS AN LDP?

A Local Development Programme (LDP) is a generic term for a local programming strategy or a comprehensive strategic tool. Successfully piloted by UNCDF in more than 25 countries (mainly in Africa), it has had substantial impact not only on local service delivery and capacities and poverty reduction, but also on national policies.

The aims of the LDP strategy in ‘building local capacities’ is:

• To develop improved procedures and systems (e.g. for a comprehensive and holistic local planning/budgeting) to be managed by local bodies and thereby to enhance the pro-poor delivery performance of those bodies;

• To introduce these alongside real budgetary resources, allowing real time learning-by-doing.

The aim of the LDP is to demonstrate that sound institutional arrangements, together with increased opportunities for better economic performance and sustainable rural livelihoods, may empower the poor, strengthen their participation in local political life and decision-making, reduce poverty, and foster economic growth.

An LDP has four distinct features:

• Sub-national institutional focus: Supporting the institutional development of subnational government and community institutions and of their inter-relations, in a selected area.

• Innovation in practice and procedures: Improving procedures and practices for local planning and budgeting, procurement, implementation, management and monitoring and – overall – for the enhancement the effectiveness, efficiency and accountability of local bodies in poverty reduction-related activities (mainly
though the provision of infrastructure services and the management of natural resources).

- **Performance-linked funding facility:** Providing local governments with a development budget support facility allowing regular, transparent and sustainable allocations to local bodies and tied to agreed measures of local performance, as incentive for local capacity building.

- **Policy impact:** Agreeing to ‘pilot’ activities which are ‘policy-relevant’, and which can be scaled-up, working as far as possible through statutory bodies and procedures (rather than creating parallel structures), to assist both the reform and the implementation of national policy in decentralization and local governance, fiscal decentralization and local service delivery, and local public sector.

### 3.3. INNOVATIVE APPROACHES IN INFRASTRUCTURE PROVISION

UNCDF stresses the comparative advantage of local governments in fostering democratic governance. After a sound assessment of the real weaknesses of local governments, UNCDF supports the introduction of a number of innovative practices in designing, financing, managing, supervising and monitoring development measures and initiatives aimed at reducing poverty.

#### a) Institutional innovations

In UNCDF’s programmes, while sub-national authorities play a crucial role in local development, they are just one stakeholder among others. There is no clear division between types of public services and levels of government. In fact, several levels of government may be involved in many types of services and infrastructures and the same services may need the involvement of several institutional levels.

**Supporting a network of institutional stakeholders**

Decentralized provision of infrastructure services essentially involves setting up networks of different actors on the basis of three key principles: *subsidiarity*, by which all planning and implementing activities is the responsibility of the level closest to the grass-roots, because of the comparative advantage of each institution; *complementarity*, by which each institutional level will operate in its own areas of action according to its own responsibilities; and *equity*, by which the rights of all local stakeholders are legally recognized and legitimized. It also requires a combination of decentralization, deconcentration and private sector involvement.

**Enhancing coordination between central and local government**

Local governments cannot be considered as independent (not even semi-autonomous) administrations; while free to act without formal approval by the center on all their matters, sub-national governments have to keep close relationships with central government. Local governments are made possible by the center and need the political oversight and the technical guidance of the center. Overall strategic planning, resource raising, training are specific functions of central government. Interactions may facilitate the clarification of the specific role at each institutional level.

→ In **MALI**, within the context of a project supporting local governments in the Mopti Region, UNCDF also provided adequate assistance to the National Authority of Local Governments (**Direction Nationale des Collectivités**...
Local governments and pro-poor provision of infrastructure services

Territoriales) of the Ministry of Local Administration to assess its own needs and priorities, and define strategies and a plan of action.

In RWANDA, within the context of a new project supporting local governments in the Byumba province, UNCDF has established a partnership with the Common Development Fund (CDF), a governmental agency which is in charge of channeling financial resources (from the Central Government as well as from donors) to local governments. UNCDF’s contributions to Byumba are managed by CDF according to a number of principles which have been jointly agreed upon and which could eventually inform CDF’s practices at a national level. The Rwanda project draws lessons learned from a similar partnership established by UNCDF in Mali with the National Office for Investment of Local Governments (Agence Nationale d’Investissement des Collectivités Territoriales, ANICT).

In UGANDA, the UNCDF-supported ‘District Development Programme’ operates in the context of the ‘National Poverty Eradication Action Plan’ with its four pillars of: (i) creating an environment for economic growth and transformation, (ii) ensuring good governance and security, (iii) directly increasing the ability of the poor to raise their incomes and (iv) directly improving the quality of life of the poor. The Government and UNCDF have agreed to the following direction/themes in support of poverty eradication through the development of high quality local governance institutions, systems, programmes and operations: coordinated participatory planning and budgeting; local revenue enhancement; gender mainstreaming; and strengthened local council administration of justice. Among the issues to be addressed by the programme are: (i) effective involvement of all stakeholders, especially the marginalized (women, youth, farmers’ groups etc.), in planning and budgeting in lower local councils and (ii) improving the quality of coordinated, strategic development plans in the respective local governments and enhancing their linkages with the budgets, so that in the end there is one strategic plan with a budget. Key elements of the project have been replicated by the Ministry of Local Government’s Local Government Development Programme (LGDP). The UNCDF support pilot project is now a national programme.

Fostering horizontal relationships between local governments
In order to be efficient in a sustainable manner, Local governments have to establish and/or strengthen horizontal relationships among themselves in order to collectively tackle mutually shared problems in the provision of infrastructure and services. This coalition may ensure the reduction of overhead costs and improve the quality of services.

In MAURITANIA, the new project in the Assaba Province supports planning and budgeting procedures at the level of 21 local governments. In partnership with UNDP, it also supports the local Association of Mayors for their role concerning representation, communication and lobbying.

In MALAWI, a system of ‘twinning’ between experienced LDP districts and new LDP districts was established. Study tours were arranged between districts; experienced staff provided local level capacity building, mentoring and system monitoring to ensure appropriate support.
Promoting pro-active interactions with community organizations

UNCDF’s LDPs favor the establishment of pro-active interactions between Local governments and lower levels of political life: the local-level institutions of interest groups, user groups, associations, networks and disparate groupings, which profoundly affect the strength, responsiveness and effectiveness of institutions.

In **Niger**, the two UNCDF projects (the ‘Mayahi project’ and the ‘Nguigmi project’, operating respectively in Central and Eastern Niger), support 13 local governments (‘communes’) in planning and implementing local development. However, the support to the ‘communes’ and the acknowledgment of their key role on infrastructure provision does not prevent the projects from pro-actively supporting local level institutions, both at the level of a village and of a cluster of homogenous villages. This institutional architecture allows participatory mechanisms of planning, in areas (such in the case of Nguigmi), where demographic density of pastoral and agro-pastoral population is 0.6 persons/km².

In **Uganda, Malawi** and **Tanzania** the process of planning in the LDP’s is based on a ‘bottom up’ participatory framework and community based plans form the basis for district level/higher local government planning. In all three countries, local governments work closely with non-governmental organizations, community based organizations and various community committees and groups to establish village action plans that are incorporated into higher-level district plans.

Strengthening local public-private partnership

An increasing number of UNCDF’s projects favor this partnership, whereby the private sector provides financial and administrative resources, while local governments play regulatory and monitoring roles. The partnership may ensure the provision of an efficient service and the creation of appropriate infrastructure matching the needs of local users. However, although the partnership may lead to the reduction of some costs in order to benefit the poor, it usually involves higher costs of services (higher than those provided by public services). Other problems of the partnerships are the following: (i) the private sector tend to avoid poor, marginal and remote areas, as well as areas marked by economic instability or political insecurity; (ii) local governments do not have the capacity of negotiating with the private sector. The ‘public-private partnership’ option in rural areas has to take into account these problems. A public–private partnership may partially ensure that appropriate measure (through subsidies or incentives) undertaken by local governments would better direct private investment towards these areas.

In **Mali**, when UNCDF started a project in Timbuktu in mid-1999, the few local entrepreneurs were not able, both from a legal and technical point of view, to work with local governments. In fact, according to the law, only officially registered entrepreneurs, paying the VAT, were able to make a tender for contracts concerning the construction of infrastructure and the provision of services from local governments. Rare bids were obtained by large entrepreneurs based in the capital Bamako (at about 1,500 km from Timbuktu) or in other large towns. In addition, technical and managerial capacities of local entrepreneurs were at the time very low. However, during the implementation of the project (1999-2005), the situation dramatically improved. Attracted by the new opportunities created by the consistent and predictable financial support provided by the project to local governments, a
number of national entrepreneurs established their branches in Timbuktu. UNCDF did not organize formal training sessions for the entrepreneurs. However, by channeling its funds through the local department in charge of public finance and by supporting only investment integrated into local budgets, it contributed to create a legal framework conducive to clear and transparent procurement procedures.

\(\rightarrow\) In Tanzania the public private partnerships were developed through a labor-based road project, identified by the communities. The government provided the enabling environment of participatory planning which led to the identification of the road project; private contractors were involved in portions of the construction that required large equipment; community members provided physical paid labor, and at the same time increased their income and contributed to the community project they had identified.

\section*{b) Planning and budgeting innovations}

\textbf{Participatory planning}

A major lesson learned by UNCDF’s projects is that Local governments are also well placed to avoid planning mistakes that may constrain access, especially for the poor or marginal segments of society, to infrastructures services, and to satisfy the varying priorities and preferences of local people. This assumes that (i) elected officials indeed are responsive to constituents; (ii) planning and budgeting procedures allow for public involvement; and (iii) local bodies do indeed have discretion in making resource allocation decisions.

\textbf{Performance budgeting}

The demand for infrastructure and services confronts local governments and their weakness compounds the enormity of the challenge. The fundamental importance of access to infrastructure and services, as a means of supporting both economic development and to impact on various parts of the poverty spectrum, is now increasingly emphasized by UNCDF’s projects: a process of planning and measurement to support targeted infrastructure and service delivery which is known as performance budgeting.

\(\rightarrow\) In Mozambique, UNCDF supports the challenges of local governments in Mampula and Cabo Del Gado Provinces in order to: (i) optimize on all sources of financing to allow Local governments to ensure the successful provision of infrastructure and services; (ii) utilize all means of infrastructure and services delivery; and (iii) embrace a process that measures the economy, efficiency and effectiveness of that delivery.

\textbf{Participatory budgeting}

All UNCDF’s projects emphasize the importance of the process of the preparation of the mandatory annual budget. Concrete measures favor the participation of a wide range of stakeholders (including the poor and other vulnerable groups) in a process of ‘participatory budgeting’ (through analysis of local budget, monitoring of public expenditures and investments, and monitoring of public service delivery).

\(\rightarrow\) In Uganda, ‘Harmonized Participatory Planning Guidelines’ were developed based on field experiences to ensure strategic planning fully linked with budgets. The district plans are comprehensive, integrated, cross-sectoral, gender sensitive, and include poverty and environmental analysis and lower local council and community priorities. They are linked to ‘rolling’
three-year priority plans. Though influenced by the determination of national poverty priority areas and budgets, local government plans are community responsive in the context of national priorities.

c) Financial innovations

**Block grants**
A major aspect of all UNCDF projects is the allocation of pluri-annual and predictable block grants directly to local governments for local discretionary use within agreed areas of expenditure. The system has enabled local governments not only to plan and to undertake a number of local development activities of their choices, but also to define a long-term ‘vision of development’, beyond the annual horizon. This approach is particularly successful as it provides incentives to local stakeholders to participate in planning and budgeting processes.

→ The overall annual flow of funds to local governments can be sustained in the longer term, in the light of an analysis of: (i) the current levels of government expenditures on those services (such as basic health, education, roads, agriculture and rural development, which could be – sooner or later – devolved to the local government levels concerned); and (ii) the levels of likely donor support (which typically comprise 80-90% of the development budget expenditure in most LDCs) to the same activities which may be encouraged to flow in a devolved manner to the same levels.

→ UNCDF also highlights the fact that the flow of funds should not “swamp” absorptive capacities, as these relate to both demand and supply – i.e.: (i) local government capacities to plan, budget and administer; (ii) local private and sector department capacities to deliver goods and services; and (iii) local government and community capacities to manage and maintain the assets. These considerations all argue for relatively modest flows. UNCDF experience suggests that average flows of approx. $1.5 to $3 per capita (of population resident in the LDP area) per year are appropriate, at least in the early stages. It should be noted that this represents a very modest fraction of “development budget per capita” ratios, which typically range from $ 20-50/capita annually in LDCs, and also of typical government budget revenues per capita.

**Cascade system**
The financial system supported by UNCDF also a funding ‘cascade’ system, whereby higher local governments pass on shares of their grants to the lower levels, to reflect and reinforce different functional responsibilities.

→ In **RWANDA**, the new project covering all the Districts in the Byumba region has created a financial utility, which takes into account not only different aspects of local poverty, but also the responsibilities of the different levels of the Rwandan decentralized institutions (the District, the Sectors, and the Cells). Thus, the **Local Development Fund** (LDF) comprises three distinct although overlapping components:

- The **DevDis** (District development) component gives to local authorities the institutional, technical and financial capacity to design, prepare and monitor their investments, particularly those related to infrastructure and services.
The *DevSec* (Sector development) and the *DevCel* (Cell development) provides local formal bodies (sector council and Cell council) with appropriate technical and financial capacities aimed at supporting investment, including small collective economic infrastructure and social services.

→ In **UGANDA**, the District must automatically pass on 65% of its block grant to the sub-counties and the sub counties must further pass on 65% of their budget to the lowest local government, the parish.

**Equitable allocations of funds**

UNCDF supports a system of allocation, which stresses equity and transparency: the system allows a weighting in find allocation to provide a degree of fiscal equalization between richer and poorer local government areas.

→ In **UGANDA**, the allocation of resources has been done on the basis of criteria of population (85%) and land (15%) where each criterion has a different weightage.

→ In **NIGER**, UNCDF adopted five basic criteria to allocate the total amount of a local development fund to 13 local governments: (i) demography; (ii) initial situation in terms of infrastructure and services; (iii) remoteness and distance of the areas; (iv) economic potential; and (v) ecological fragility. In this way, the way of allocating the fund directly favored the poorest local governments.

Generally, UNCDF projects adopt the formula of allocating grants to local governments on what is already prescribed in national policy. For instance:

→ In **UGANDA** – the formula is specified in the local Government Act as: [population:20%] [child mortality: 40%] [school age population: 25%] [land area:15%] However, due to data problems and controversy simplified to [population.85%] [land area.15%]

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

→ In **MALAWI**, there is initially an equal distribution of a base resource level to all districts to ensure some level of consistency between districts (an equalization grant); then a formula based on population, access to services and poverty indicators determines the remainder of the distribution. The important element of the Malawi formula is that it was developed in full consultation between the MOLGRD and the districts.

**Minimum conditions and performance-linked funding**

A key innovations introduced by many of UNCDF projects is the linkage of the funding to local governments to their institutional and administrative performance. The measure aims at ensuring that fiscal transfers can also provide incentives to improve local performance not only on the revenue side, but also on the expenditure side, and indeed on the other broader areas of local administration. The measures needs: (i) the establishment of minimum conditions of access to block grants; and (ii) the establishment of performance measures to adjust the basic block grant allocation upward or downward.
In **UGANDA**, UNCDF has worked closely with Ministry of Local Government (MoLG) in order to design a grant modality that had in-built incentives for the local governments to perform. The grant was provided to local authorities if they fulfilled certain minimum conditions. In addition, the grants were adjusted in size according to how the local governments performed in detail to a number of nationally established guidelines for local government planning, procurement, gender mainstreaming, accounting, etc. The MoLG broadcast to the general public the conditions that local authorities should fulfill, the amounts of money they received, as well as the reasons for which they were granted more or less money as a result of the performance assessments. As a result, the public became much more concerned with the performance of the local governments as it now had a visible and direct link to service provision (the amount of development funds the council was allocated). Councilors also became much more concerned with the performance of their staff. This system has been in operation for 9 years with continued positive impact.

**Fiscal Decentralization**

Fiscal decentralization involves the participation of sectors in the decentralization process. Through provision of sector funds directly to local governments to be used at their discretion, UNCDF’s projects contribute to establish a truly devolutionary process of decentralization. This process requires trust in the capacity of local governments to provide all required services to the communities in a context of national poverty reduction priorities.

In **UGANDA** the process is currently being implemented in 33 districts with ministries providing a portion of the budget as a conditional grant (between 80-90%) based on sector priorities, with the remaining 10-20% provided to the district to be used at their own discretion within the sector. For example, if the health sector has provided its 80% for clinics, the Local government can use its 20% for hospital equipment, or drugs or bedding or whatever it chooses within the health sector. The basic principle is that districts must have discretionary sector funding to provide for requirements that aren’t included in sector plans.

d) **Capacity building innovations**

The debate on local capacity is broad. It is pointed out that central government cannot devolve significant power to local institutions and to local authorities, because they lack essential technical capacity, especially as far as infrastructure provision and maintenance are concerned. However, at the heart of the UNCDF approach is an emphasis on building and strengthening local capacities: the capacity of sub-national governments to plan pro-poor infrastructure delivery, as well as to implement and monitor them, and assess local development policies and strategies. The principle is that local authorities (and other local leaders) will not develop real technical capacities without some form of effective transfer of authority and resources.

The decentralization process is dangerously ambivalent. If the process is not carefully managed with the right capacities built and/or improved, the strengths of decentralization can be transformed into their opposites: expected efficiency becoming inefficient; responsible management being all but responsible; and expected autonomy turning into dependency.

In this worst-case scenario, accountability procedures are still limited or poorly performing, and the participation of all local stakeholders is seldom satisfactory. This
is in line with a view that considers decentralization as a restructuring of the roles of different levels of government; decentralization is not a zero sum shift from central to local government or to local bodies. Instead of delivering services, the central government should regulate and supervise the quality (e.g., efficiency and equity) of the services delivered by local governments and other stakeholders.

Effective capacity building can be considered a multi-layered component, addressing all local stakeholders:

(i) **Local governments** in their specific role to plan, programme, budget, implement and monitor different aspects of local development as well as to exercise legality controls. This comprises their capacity to respond to local needs and priorities; their capacity to provide technical and financial support and their capacity to deliver services at low cost.

(ii) Deconcentrated **governmental services** (both at provincial and regional level) in their role to provide appropriate technical support to local authorities. The current debate has stressed the need to support deconcentrated services; it has been argued, for instance, that “there is more complementarity than contradiction between deconcentration and decentralization;”

(iii) **Organizations of local civil society** (including NGOs, village organizations, women and youth associations, interest groups — such as pastoralists associations — customary leaders, etc.) in their (potential) role to participate actively in the identification, design, implementation and monitoring of development activities as well as in the provision of technical services.

> **In UGANDA**, UNCDF has supported the introduction of a core set of capacity building modules, through a demand-driven approach allowing local governments to specify their specific requirements on terms of capacity building. Training modules have also addressed specific needs of local contractors and NGOs, because of their key role in providing infrastructure and service delivery. Finally, Uganda has also introduced the concept of ‘mentoring’, whereby lower levels of government are actively ‘mentored’ by higher levels – this approach has highly improved communication between different levels of government. The current LGDP programme modeled on the UNCDF LDP process has, based on experience, introduced a hybrid approach. A set of twenty–six generic **Capacity Building Modules** have been developed including gender mainstreaming, financial management, procurement etc. National private sector training institutions are vetted and approved as training providers and local governments are given a ‘menu’ of courses and providers. The Local Authorities then select those modules and training institutions, which fit their current capacity building requirements. This mix of supply and demand-driven training grew out of the UNCDF LDP project and has now been fully institutionalized by the MOLG. The interesting spin off from this approach is support to Local Economic Development, in which the government provides an enabling environment for private sector development.

> **In MALI**, the **Support to rural local governments** project in Mopti Region has developed over the last years different training modules for a large number of stakeholders, covering a wide set of issues, including planning and
management of key infrastructure and services, procurement, management of municipal archives and the like.

4. CONCLUSION

OVERVIEW AND GENERAL LESSONS LEARNED

Potentially, for a number of reasons, when the planning and provision responsibility is devolved to local governments, infrastructure and services are more effectively operated and maintained to benefit the poor in the longer term:

- **Increased local pressure**: Generally, and in contrast to central agencies, local governments face greater incentives and daily pressure from local constituents to ensure proper operation and maintenance of local facilities. They are also better aware of the specific sustainability problems of different local services.

- **Recurrent budget commitments**: The greater scope for plan and budget integration at local levels better ensures that longer term recurrent budget and staff planning of line departments matches the local infrastructure investment programme, and so works in favor of sustainability.

- **The prospect of ‘co-opting’ communities**: Local government bodies are usually better-placed to negotiate with local community groups to ensure that respective maintenance responsibilities are clearly defined, and to monitor and backstop this.

- **A chance for institutional permanence**: As infrastructure/service providers, statutory local government bodies enjoy much greater permanence than other local institutions such as NGOs, often dependent on the vagaries of donor funding.

The problem of infrastructure and service delivery (and the general problem of public-expenditure efficiency) is critical to achieving the Millennium Development Goals. Infrastructure sectors, especially those related to health and education, may increase production volumes, reduce costs and prices, improve education and health status, and reduce time allocated to procurement of water and fuel. However, as the World Development Report 1994 pointed out, the challenge is to broaden from increasing the *quantity* of infrastructure stock to improving the *quality* of infrastructure services.

From this broad perspective, decentralization and democratic governance are essentially economic and political rather than administrative issues. They are means to enhance local economic development, local delivery of infrastructure and social services, and local control, access to and use of productive renewable natural resources as well as to foster wider forms of social inclusion and to strengthen civil society.
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