



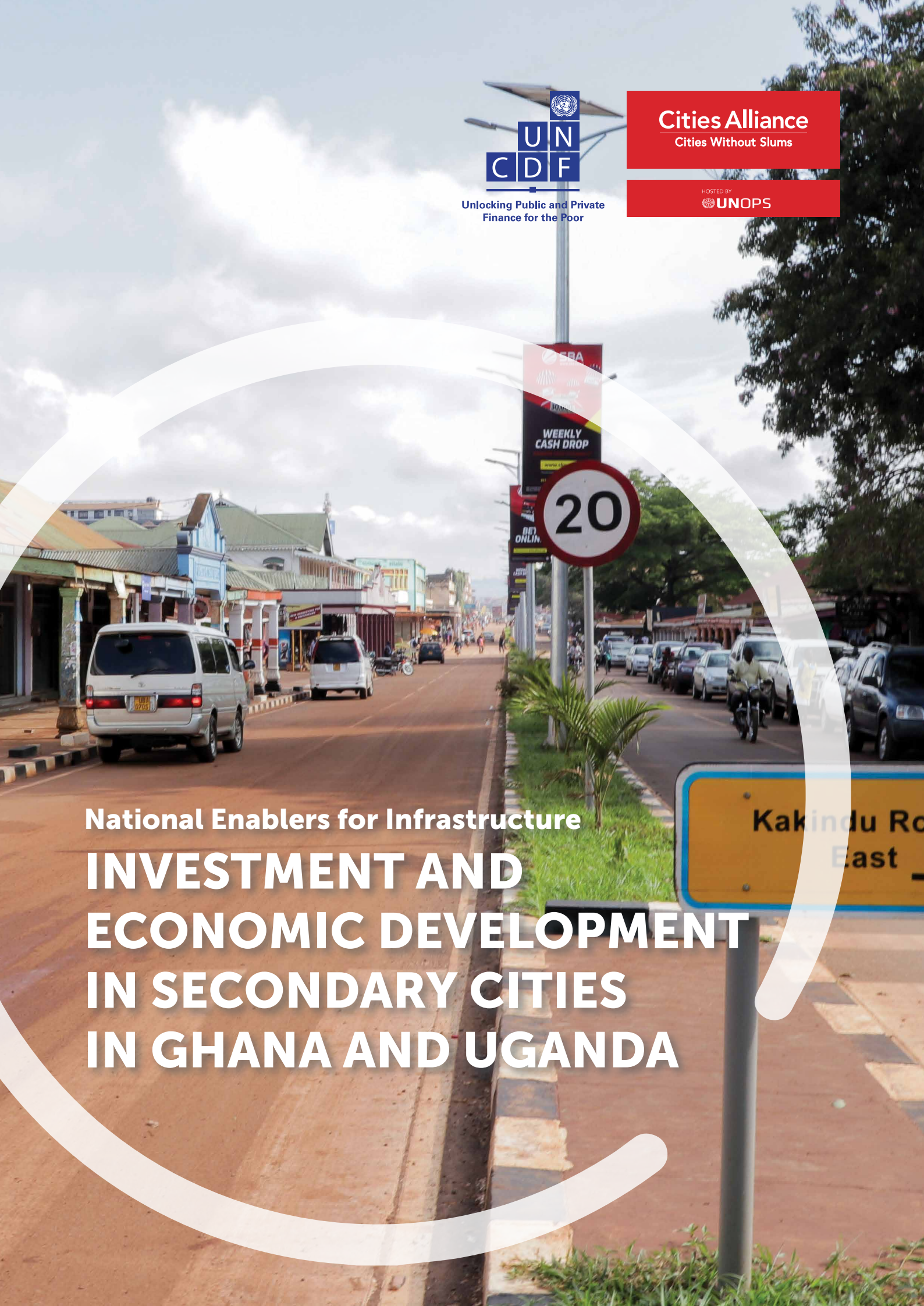
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National Enablers for Infrastructure

INVESTMENT AND ECONOMIC DEVELOPMENT IN SECONDARY CITIES IN GHANA AND UGANDA



JANUARY 2021

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ABOUT UNCDF

The UN Capital Development Fund makes public and private finance work for the poor in the world's 47 least developed countries (LDCs).

UNCDF offers “last mile” finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development.

UNCDF's financing models work through three channels: (1) inclusive digital economies, which connects individuals, households, and small businesses with financial eco-systems that catalyze participation in the local economy, and provide tools to climb out of poverty and manage financial lives; (2) local development finance, which capacitates localities through fiscal decentralization, innovative municipal finance, and structured project finance to drive local economic expansion and sustainable development; and (3) investment finance, which provides catalytic financial structuring, de-risking, and capital deployment to drive SDG impact and domestic resource mobilization.

ABOUT CITIES ALLIANCE

The Cities Alliance is the preeminent global partnership for the promotion of cities in poverty reduction and sustainable development. Headquartered in Brussels, it is a unique partnership with diverse members – local governments, national governments, international non-governmental organizations, foundations and multilateral organizations – which have come together to strengthen both impacts and coherence in urban development. Cities Alliance is hosted by the United Nations Office for Project Services (UNOPS).

In accordance with the priorities, the Cities Alliance has established a Joint Work Programme (JWP) focused on fostering equitable economic growth in cities. The JWP aims to better understand and address the link between public service provision and equitable economic growth trajectories in cities. To accomplish this goal, it works with local governments, city stakeholders and development partners to produce global knowledge, facilitate policy dialogues and support city-level diagnostics and policy recommendations to respond to the challenges of inequitable economic growth in cities.

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ABBREVIATIONS AND ACRONYMS

IF	Inter-generational financing	PAYGO	Pay-as-you-go
IGF	Internally generated funds	PPP	Public-private partnership
IGR	Internally generated revenue	SBA s	Small-business associations
LEAP	Local Economic Acceleration through Partnership	SOEs	State-owned enterprises
LED	Local economic development	UNCDF	United Nations Capital Development Fund
MTEF	Medium-term expenditure framework		



EXECUTIVE SUMMARY



Nakawa Market, Kampala,
Uganda, October 2019

Photo: @Cities Alliance

Ghana and Uganda are designated by the World Bank as lower middle-income and low-income countries, respectively. As of 2018, Ghana had a per capita income of about US\$2,213 compared to US\$620 for Uganda. It is within this wider context of national economic development that two cities from each of the two countries were selected to participate in the Local Economic Acceleration through Partnership (LEAP) project by the United Nations Capital Development Fund (UNCDF) and Cities Alliance between September 2019 and March 2020.

A number of reports were prepared for the project based on interviews with local government officials, the development of financial analysis models for the cities, and a review of relevant materials on such topics as revenue mobilisation, infrastructure financing, decentralisation, urbanisation, and local economic development (LED) in each country. The current report is a synthesis of these reports, supplemented by additional resources on the prospects of local and national development in both countries and a focus on how national governments can enable infrastructure financing and LED.

The report begins with an analysis of the economic performance of the two countries over six decades in order to understand their records of economic and social transformation by examining trends and patterns in output, employment, incomes, population, and urbanisation, as well as the state of political governance in each country. This is followed by a review of the economies, finances, demographics, and infrastructure of the four project cities in Ghana and Uganda. Various options for financing infrastructure are reviewed, and the two chosen, public private partnerships and municipal bonds, are assessed for their pros and cons and how best to utilise them.

Additionally, given the weak implementation record of the traditional process-driven approach to LED, a “New LED” framework is proposed and discussed. New LED is based on three core pillars: economic development, social development, and infrastructure development. In this new framework, both hard and soft infrastructure play a central and mediating role between economic development and social development, and they indirectly serve the other aspects of local and national development, such as public administration, security services, and the administration of justice. The broader premise of New LED is that local economies constitute the building blocks of national economies, and therefore, national development strategies must necessarily be anchored in local development strategies – or risk failure.

Given the oft-overlooked financial implications of current infrastructure spending on future recurrent budgets of local governments, an integrated approach to infrastructure planning and financing based on capital and recurrent budgeting (rather than the restrictive three-year medium-term expenditure framework, MTEF) is also recommended, with spatial planning serving as the framework for all infrastructure development.



GHANA

UGANDA

This is followed by a primer on “infrastructure,” which outlines the various forms of infrastructure in a developing-country context, their inter-dependencies, and why their contribution to economic development should not be taken for granted simply because they exist. Lastly, the “macroeconomics of local economies” is presented as a reminder of the indirect role the central government plays, through its macroeconomic policies, in enabling infrastructure financing and LED through such key macro-indicators as inflation, interest rates, and exchange rates.

SUMMARY OF NATIONAL FINDINGS

- i.** Both Ghana and Uganda attained various degrees of structural transformation over the past six decades, although Uganda has suffered some slippages in recent times.
- ii.** Even though Ghana and Uganda had almost identical populations of about 6.7 million each in 1960, by 2018 Uganda’s population was about 13 million more than Ghana’s.¹ This large increase in the population may partly explain Uganda’s low GDP per capita of US\$643 (total GDP divided by the mid-year population), compared to Ghana’s figure of US\$2,202.
- iii.** Curiously, high population growth in Uganda has not translated into higher urbanisation rates: at 23.8%, the country’s urbanisation rate in 2018 was only marginally higher than Ghana’s rate of 23.3% in 1960, and it was substantially lower than the 56.1% posted by Ghana in 2018. Access to electricity also remains low: 22% in 2018 compared to 79% in Ghana (the comparable figures in 1960 were 3.2% and 30.6% for Uganda and Ghana, respectively).
- iv.** In terms of economic transformation, changes in key sectors of production also showed divergent paths: the share of industry in Uganda’s GDP declined from 21.4% to 19.9% between 2000 and 2018, whilst that of Ghana increased from 25.4% to 31.5% over the same period. Agriculture’s share was as high as 70.8% in Uganda, up from 69.96% in 2000 and thus reflecting a slight reversal in transformation.² In Ghana, agriculture’s share slid from roughly 35.3% in 2000 to 18.3% in 2018. The share of services in GDP in Uganda was about 48% in 2018, compared to 43% in Ghana. Both reflected upward trends over the 18-year period.

SUMMARY OF LOCAL FINDINGS

- i.** Persistent shortfalls in local revenue due to high informality and administrative weaknesses
- ii.** Dwindling and erratic financial transfers from the central government to local governments
- iii.** Weak local economic development strategies
- iv.** Growing incidence of unplanned human settlements that raises the cost of delivering social services
- v.** Inadequate infrastructure
- vi.** Weak capacity to finance infrastructure
- vii.** Low private sector participation in infrastructure provision
- viii.** Weak infrastructure planning and management
- ix.** Weak local government control over core infrastructure, such as utilities
- x.** Threats to decentralisation as governments recentralise many local government powers and functions.

¹ This may partly be the cumulative effect of refugees escaping conflicts from neighbouring countries into Uganda over the years. Gulu, one of the project cities, is host to a large number of refugees.

² As discussed in the paper, agricultural output, relative to output in the other sectors of the economy, declines as part of the process of transformation although in absolute terms agricultural output may actually rise to meet a country’s food needs.

RECOMMENDATIONS

National Level Recommendations:

- i. **Accelerate structural transformation:** Both countries need to redouble their efforts to transform their economies in ways that move resources, including labour, from less productive sectors to more productive ones in a more balanced and complementary manner. This is the only way they can raise productivity and national income and therefore generate the needed revenue to enable investment in infrastructure and promote national development, broadly. For Uganda, this would require, among other things, an ambitious programme of agricultural modernisation and a national infrastructure plan that reflects its long-term goal of becoming a middle-income country as outlined in its *Vision 2040* plan. With respect to Ghana, industrial policy must be strengthened to expand output and create more employment in the sector as the relative shares of agricultural output and employment decline. In both countries, the government should treat LED as the foundation of overall socioeconomic transformation and accord it pride of place in national development strategies.
- ii. **Strengthen population management:** Whilst various government policy documents in Uganda have emphasised the importance of managing population growth, it appears that actual policies have not had their intended effects, although the proportion of non-Ugandans (mainly refugees) in Uganda has declined in recent years. For effective population management, the government should take a holistic approach by complementing short-term interventions, such as family planning, with a long-term approach that provides educational opportunities for girls, which keeps them in school as long as boys and thus delays marriage and child-bearing. It must be noted, however, that slower population growth *per se* does not bring development. It must be accompanied with equal economic and other opportunities for men and women. For Ghana, whose overall population growth rate has been declining, rural population growth remains higher and requires the same combination of short- and long-term strategies as Uganda to achieve stability in growth between rural and urban areas.
- iii. **Intensify national electrification programmes:** With electricity access of only 22% (compared to nearly 80% for Ghana and 40% for low-income countries), Uganda needs to intensify efforts to raise the rate as an integral part of its national development strategy. For Ghana, despite the high access rate, there is still the need to increase generation and in particular consumption, which, at 351 kWh in 2014, was low, compared to the average of 759 kWh for lower middle-income countries.
- iv. **Establish bond markets:** Governments can no longer avoid the establishment of municipal bond markets on the pretext that local governments do not have the technical capacity or the financial muscle to access these markets; this is a self-reinforcing argument that provides no viable options but rather allows the problem to fester. The required capacities for municipal bonds have been built elsewhere and can be built in Ghana and Uganda as well, if policy makers so wish. The matter of low financial capacity for smaller municipalities can be overcome with several innovative schemes, such as “pooling.” Effective regulation of the market through close monitoring of the fiscal health of local governments can all contribute to the establishment of a successful bond market in each country.
- v. **Pursue robust macroeconomic policies:** Macroeconomic stability, especially in terms of low and stable rates of inflation, interest rates, and exchange rates, will be critical to financing infrastructure and promoting LED. In Ghana, for example, high inflation rates reduced the value or purchasing power of revenue in the two cities by about 50% between 2013 and 2018, undermining their capacity to finance infrastructure and development in general. The establishment of a bond market, which is proposed for each country, will require, among other things, low and stable interest rates in order to avoid mass defaults by local governments that issue bonds. The central government in each country, therefore, must pursue robust fiscal and monetary policies that ensure sustained macroeconomic stability and thus contribute indirectly to infrastructure financing and LED.

The local issues summarised in the report sometimes overlap and therefore can be addressed by one or more of the recommendations listed below in different combinations.

Local Level Recommendations:

- i. **Address threats to decentralisation:** Efforts by central governments to recentralise power (and resources) through the procurement of goods and services on behalf of local governments, or replacing local officials with their national counterparts without the consent or approval of local governments, have become pervasive in both countries. They are often justified by the need for cost-cutting through bulk purchasing (in the case of Ghana) or the removal of red tape and politics (in the case of Uganda). Neither of these has been proven to valid. It is in the strategic interest of the central government to reverse this threat to decentralisation and assist local governments to build their contracts and broader development management capacities as part of a wider strategy to build national institutions for national development. Local governments should be able to negotiate the best deals for the goods and services they purchase as part of this capacity building strategy.
- ii. **Consider population impact in local development planning:** Both the Ghana Statistical Service and the Uganda Bureau of Statistics have extensive and detailed statistics about districts that local governments must make greater use of. For example, dividing total revenue (to get revenue per capita) and analysing the resulting trends over time gives an indication of the capacity of local governments to provide municipal services to their growing populations (ideally, per capita revenue should rise with population growth). Knowledge of local population trends is also crucial for spatial planning and infrastructure development. Close collaboration between local governments and their respective national statistics offices is imperative in this regard.
- iii. **Formalise the informal sector for enhanced productivity, higher incomes, and improved revenue:** For purposes of policy formulation, the International Labour Organisation (ILO) defines informality in terms of labour and mostly micro, small, and medium-scale enterprises. Labour informality includes persons who work in formal sector firms, such as large corporations, in casual or temporary capacities without written agreements for compensation or benefits such as maternity or annual leave. The majority of informal sector workers, however, are own-account individuals who survive on petty trading and other subsistence jobs. Both involve low and unstable incomes with high degrees of vulnerability – being sick and taking the day off, for instance, means a loss of income, unlike their counterparts in the formal sector. Informal enterprises, on the other hand, maybe be registered but otherwise operating outside legal norms, such as failure to pay taxes or obey certain government regulations, or they may not be registered at all. In both cases, they are characterised by low productivity and low incomes, which makes it difficult to raise adequate revenue from wages and profits and to fight poverty over the long term. To these two dimensions may be added infrastructure, such as open markets and commercial vehicle stations, that are mostly used in the informal sector. Much of this infrastructure is often decrepit and inefficient, adding to the cost of doing business, which in turn reduces profits and household incomes. To various degrees, the above conditions exist in the cities that were studied. Any formalization programme must take all these factors into consideration, drawing on the ILO's Recommendation No. 204 (2015), which provides technical assistance.
- iv. **Address technological and institutional challenges to revenue mobilisation:** Structural issues, such as high informality and associated low revenue base, will require many years to address. However, technological innovations and institutional reforms, which have the potential to show immediate results, will be required to boost local revenue mobilisation. Donor-supported technology has proved useful in Ghana (and may do so in Uganda) and it must be well coordinated by the ministry or agency responsible for local government to avoid duplication of efforts and waste of scarce resources. Leakages, including waste or outright theft by revenue collectors (both employees of local governments and private collectors), must be addressed as a matter of urgency.
- v. **Coordinate basic infrastructure services from state-owned enterprises:** To address the lack of direct control by local governments over state-owned enterprises (SOEs) that provide



infrastructure or utility services, such as water and electricity, each local government should establish a “High-Level Coordinating Committee on Infrastructure” to be chaired by heads of local governments (district chief executives or mayors) and comprising representatives from the local government, the central government, private sector, business associations, and civil society organisations. A technical team to assist the committee will coordinate work among the utilities and other providers to prevent damage to existing infrastructure (such as pipes or power lines), for instance, and ensure smooth delivery of services. The high-level committee will focus on matters of policy that require decision making at the leadership level, including collective engagement with the central government, and provide direction to the technical committee.

- vi. **Strengthen public-private partnerships framework: Ongoing efforts to enact PPP laws** or strengthen existing ones in the two countries are to be commended. These, however, should be supported with continuous capacity development by both local and national governments on key areas of PPP, such as legal services or substantive technical matters, to help them in monitoring PPP arrangements and getting the most from them. This could be a combination of in-house capacity development and contractual professional services secured by national or local governments.
- vii. **Adopt a new approach to local economic development:** The health of local economies is critical to assessing the capacity of local governments to finance their infrastructure, or access bond markets. However, current approaches to LED have failed to live up to



Photo: @Cities Alliance

expectations, largely because of an excessive focus on “process” at the expense of substance; the actual measurable objectives of LED are assumed or poorly specified. A “New LED” based on three pillars – economic development, social development, and infrastructure development – and facilitated by a number of interlocking and mutually reinforcing processes and institutions is proposed. National governments are encouraged to view local economies as the building blocks of their national economies and devote special attention to them in national development strategies.

- viii. Adopt new approaches to budgeting:** It appears that the medium-term expenditure framework (MTEF) that Ghana, Uganda, and other Africa countries adopted in the 1990s has undermined capital budgeting (in the case of Ghana) and constrained municipalities to short-

term loans for infrastructure that requires long-term financing (in the case of Uganda). A return to capital-recurrent budgeting is recommended, with particular attention to making provisions for the financial implications of current infrastructure spending on future recurrent budgets. This is critical for effective expenditure management and managing risks to the fiscal health of local governments in the medium-to-long term.

- ix. Link infrastructure development to spatial planning:** Whilst both countries have spatial planning frameworks of some sort, the growing urban sprawl and the emergence of unplanned peri-urban communities mean that physical planners have failed and should strengthen spatial planning as the basis for infrastructure development. This will also require serious efforts at land reform in both countries.



1. INTRODUCTION



According to the most recent census, more than half of all Ghanaians live in cities.

Photo: @Cities Alliance



Infrastructure, particularly those that offer power, water, transportation, and telecommunication services – collectively known as basic or core infrastructure – constitute the cornerstone of local economies and by extension national ones. Along with other forms of infrastructure, such as waste treatment systems, basic infrastructure facilitate the production and distribution of goods and services by local businesses, the basis of national economic growth, whilst providing essential social services for households and communities at large.

For many developing countries, such as Ghana and Uganda, financial, institutional, and other challenges have constrained their ability to provide enough infrastructure to keep up with their immediate and future development needs. The problem is sometimes compounded by high population growth and the rapid rise in unplanned human settlements and their associated slums that raise the overall cost of providing infrastructure to sparsely populated and hard-to-reach communities.

Governments are now being called upon to complement traditional ways of financing infrastructure with new and innovative ones that are affordable, accessible, and sustainable. Between September 2019 and March 2020, the United Nations Capital Development Fund (UNCDF) and Cities Alliance launched the Local Economic Acceleration through Partnership (LEAP) project in two secondary cities, Cape Coast and Agona West districts, in Ghana, and another two, Gulu and Mbale, in Uganda.³ A successor to a previous project, the Joint Work Programme (JWP), the LEAP project aimed to assess the financial capabilities of those cities and explore options for financing infrastructure in support of local economic development (LED).

This report is a synthesis of the various reports for each of the four municipalities. Given the mutually beneficial relationship between local economies and the national economy, the report begins with a comparative analysis of the economic growth record of the two countries, focusing on their decades-long efforts at economic and social transformation. This includes trends and patterns in economic growth, employment, and urbanisation as well as the state of governance and decentralisation in each country. In conjunction with other data and information on the development history of the two countries, the findings of the studies are generalised to explore how efforts by local governments can be complemented by policies and initiatives of central governments to enable infrastructure investment and the promotion of LED. The term “enablers,” in this context, refers to policy and institutional reforms as well as direct or indirect actions by the central government to support the aforementioned objectives.

³ For purposes of the study, “secondary cities” are those between the national capital and smaller ones. A major characteristic of secondary cities is rapid urbanisation and the challenge of meeting the attendant growth in the demand for municipal services.



2. PROFILES OF GHANA AND UGANDA



Kinawataka Slum, Kampala, Uganda, October 2019

Photo: @Cities Alliance

Considering the fact that transformation is a long-term process, the analysis covers key economic and social indicators dating back to 1960. Where data for some years are not available, the analysis is restricted to years for which the relevant statistics are available and consistent for both countries.

2.1. Economic Growth and National Income

The World Bank designates Ghana as a lower middle-income country, with a per capita income of US\$2,213 in 2018, and Uganda as a low-income country, with a per capita income of US\$620, about 30% that of Ghana. The primary units of analysis for this section, however, are the gross domestic product (GDP), the broadest measure of economic activity in a country, and per capita GDP, which is GDP divided by a country's mid-year population.⁴ Besides being a suitable proxy for the income per capita used by the World Bank, GDP per capita also serves as a crude measure of a country's overall productivity (output per person, which is sometimes refined to "output per worker") as well as its capacity to generate enough revenue to finance its development. Higher per capita GDP is typically associated with a higher revenue-GDP ratio for a country and generally higher levels of socio-economic development.

Table 1 shows that in 1960, the economy of Ghana, which had gained political independence from Britain three years earlier, was US\$1.2 billion, nearly three times the US\$420 million GDP for Uganda, which would not gain independence until 1962. Ghana's economy remained larger until 2000, when a 50% drop in its currency against the US dollar led to a decline in nominal GDP from US\$7.7 billion in 1999 to US\$4.98 billion in 2000 as Uganda's GDP continued to grow steadily, if slowly, until it reached US\$6.19 billion in 2000 and overtook Ghana's. It would be another three years before Ghana regained its place as the larger of the two economies, with a GDP of US\$7.6 billion in 2003 compared to US\$6.3 billion for Uganda that year.⁵

⁴ The World Bank uses Gross National Income (GNI) per capita to rank countries. GDP per capita is a suitable proxy.

⁵ All figures cited in the analysis are from the World Bank's World Development Indicators (2020), unless otherwise stated.



Table 1: Trends in GDP and GDP per capita in Ghana and Uganda, 1960-2018.

Total GDP (nominal US\$, Billions)								
	1960	1970	1980	1990	2000	2010	2015	2018
GHANA	1.22	2.22	4.45	5.89	4.98	32.17	49.18	65.56
UGANDA	0.42	1.26	1.24	4.30	6.19	20.19	27.10	27.46
GDP per capita (nominal US\$)								
GHANA	184.00	254.00	402.00	399.00	259.00	1,298.00	1,766.00	2,202.00
UGANDA	63.00	134.00	100.00	248.00	262.00	623.00	709.00	643.00

Data Source: World Development Indicators (World Bank, 2020).

In 2010, Ghana rebased its economy, resulting in a 75% jump in nominal GDP over the previous estimate for that year and a 60% increase of the original GDP in 2006, the new base year.⁶ By 2018, Ghana's nominal GDP stood at about US\$65.56 billion, with a per capita GDP of US\$2,202.00, compared to US\$27.46 billion GDP for Uganda and a per capita GDP of US\$643.00.⁷ The substantially lower GDP per capita for Uganda may be due to a combination of higher population growth and a slower rate of economic transformation (as discussed below), despite the fact that annual economic growth in Uganda was marginally higher on average than that of Ghana over the same 35-year period, 5.80% versus 5.21%, respectively.⁸

In 2010, Ghana rebased its economy, resulting in a 75% jump in nominal GDP over the previous estimate for that year and a 60% increase of the original GDP in 2006, the new base year. By 2018, Ghana's nominal GDP stood at about US\$65.56 billion, with a per capita GDP of US\$2,202.00, compared to US\$27.46 billion GDP for Uganda and a per capita GDP of US\$643.00. The substantially lower GDP per capita for Uganda may be due to a combination of higher population growth and a slower rate of economic transformation (as discussed below), despite the fact that annual economic growth in Uganda was marginally higher on average than that of Ghana over the same 35-year period, 5.80% versus 5.21%, respectively.

2.2. Trends in Structural Transformation

Table 2 shows trends and patterns in the three main sectors of each country's economy, namely, agriculture, industry, and services, as well as employment shares of each sector. Together, they provide the broadest measures of economic transformation. By definition, economic transformation occurs as human, financial, and other resources move from less productive sectors to more productive ones over time. All things being equal, the resulting increase in productivity leads to higher household incomes and an overall rise in living standards. Historically, agriculture has been the least productive sector because all societies start off with rural populations that have excess farm labour using rudimentary methods of production that lead to low output per worker and low incomes. Industry and services, by contrast, are presumed to thrive on new technologies and innovation, typically as part of a broader process of urbanisation, leading to higher productivity and higher incomes in those sectors.

Countries such as Ghana and Uganda, at independence, were expected to follow this classic path to structural transformation, but their records of transformation have largely been mixed. In Ghana, most workers leaving rural areas have not found the anticipated factory jobs in urban areas, whilst in Uganda, the movement has been slow for the most part and has recently showed signs of some reversal.

⁶ This creates distortions in the economic history of the country, because the methodology for calculating GDP until 2005 was substantially different than the one used for 2006. This, for instance, led to a near-doubling of nominal GDP in 2006 over 2005.

⁷ A similar rebasing exercise by Uganda in 2019 found that its economy was 11.6% bigger than previously estimated.

⁸ These figures are from 1983 to 2018.

For example, between 2000 and 2018 (the period with the most consistent data for both countries), Ghana's share of agricultural employment declined steadily from 54.97% to 33.86%, whilst agriculture's share of GDP fell from 35.27% to 18.27%. Industrial employment, however, increased from 14.0% to only 18.6%, whilst services employment jumped from 31.0% to nearly 50.0% in 2018. Unlike the case of the industrialised countries where the services sectors, such as finance and technical services, emerged to support industrialisation, the services sector in Ghana and Uganda (as with other developing countries) was made up primarily of low-value survivalist activities, such as street-level trading, that people turned to when jobs in the industrial sector were not forthcoming; very little of their services sector supports industrialisation (see Table 2).

Unlike Ghana, however, Uganda's agricultural employment actually *increased* (if only marginally) from 69.96% in 2000 to 70.76% in 2018, whilst the shares of industrial output and employment declined over the period, indicating a reversal of the country's process of structural transformation. Services output rose, but by only 2.92 percentage points, whilst the sector's share of employment declined by about one percentage point, as shown in Table 2. It appears that the goal of having "A Transformed Ugandan Society from a Peasant to Modern and Prosperous Country in 30 years," as outlined in the country's *Vision 2040* development plan in 2007, is at risk of being missed. More aggressive policies will be required to recover lost ground and accelerate future growth in order to achieve that goal.



Photo: @Cities Alliance

Table 2: Trends and patterns in GDP and employment, 2000-2018.

Ghana - Sectoral GDP and Employment Shares (%)						Percentage Point Difference (2000-2018)
		2000	2010	2015	2018	
AGRICULTURE	GDP	35.27	28.04	20.25	18.27	-17.00
	Employment	54.97	49.87	35.18	33.86	-21.11
INDUSTRY	GDP	25.40	18.01	31.68	31.53	6.12
	Employment	14.00	13.82	18.68	18.62	4.61
SERVICES	GDP	28.82	48.18	39.54	43.01	14.19
	Employment	31.02	36.31	46.14	47.52	16.50

Uganda - Sectoral GDP and Employment Shares (%)						Percentage Point Difference (2000-2018)
		2000	2010	2015	2018	
AGRICULTURE	GDP	27.51	26.24	23.98	24.21	-3.30
	Employment	69.96	70.80	71.34	70.76	0.80
INDUSTRY	GDP	21.44	18.13	20.01	19.87	-1.57
	Employment	7.46	7.48	7.15	7.39	-0.08
SERVICES	GDP	44.67	48.48	47.93	47.59	2.92
	Employment	22.58	21.72	21.51	21.85	-0.72

Data source: World Development Indicators, World Bank (2020).

2.3. Energising Growth

Energy, or more specifically, electricity consumption, has long been used as a useful proxy for measuring the economic development of a country, especially the rate of industrialisation and urbanisation. An analysis of electricity access in Ghana and Uganda offers some explanation for their divergent records of structural transformation. As shown in Figure 1, which covers World Bank data from 1993 to 2017, access to electricity in Uganda has been abysmally low over the years. Indeed, its access rate of 22.0% in 2017 was lower than Ghana's rate of 30.6% in 1993 and was just over half of the average rate for low-income countries. Given the preponderance of electricity use in urban areas, the low access rate in Uganda may be as much a reflection of its low urbanisation rate as it is a cause of it.

Ghana owes its higher access rate of nearly 80% in 2017 to its ambitious rural electrification scheme, which it launched in the 1970s. The Uganda Rural Electrification Agency, however, was established in 2001 and commenced work in 2003. It aims to achieve access of 51% by 2030 and 100% by 2040.⁹

2.4. Population and Urbanisation

The rate of population growth and its distribution, especially between urban and rural areas, is both a reflection of structural transformation and a contributor to it. Properly planned and managed, urbanisation can drive growth in industry and services as agriculture declines relative to those sectors, partly because of the faster growth of non-agricultural sectors. (In absolute terms, however, agricultural output must increase significantly to meet a country's growing food needs, especially in urban areas, and possibly export some.)

⁹ From the Uganda Rural Electrification Agency website, <http://www.rea.or.ug/>, accessed on 26th March 2020. According to the website, the access rate was 28.0% as of 2020.

Figure 1: Access to electricity (% of population) in Ghana and Uganda, 1993-2017.

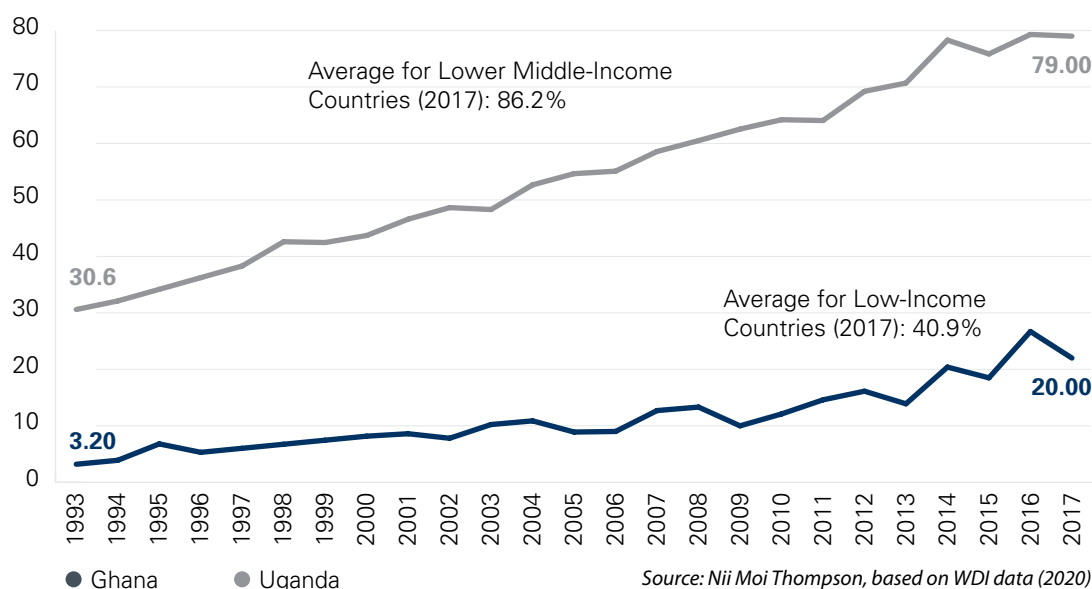


Table 3: Population and urbanisation in Ghana and Uganda (1960-2018).

Population Levels (in millions)								
	1960	1970	1980	1990	2000	2010	2015	2018
GHANA	6.64	8.74	11.06	14.77	19.28	24.78	27.85	29.77
UGANDA	6.77	9.41	12.44	17.35	23.65	32.43	38.23	42.72
Urban populations (% of total population)								
GHANA	23.25	28.96	31.16	36.44	43.93	50.71	54.09	56.06
UGANDA	4.42	6.66	7.53	11.08	14.79	19.38	22.06	23.77

Data source: World Development Indicators, World Bank (2020).

In 1960, Ghana and Uganda had almost identical population levels of 6.64 million and 6.77 million, respectively. By 2018, however, the population of Uganda stood at 42.72 million, about 13 million more than Ghana's at 29.77 million. This was the result of an average annual population growth of 3.2% for Uganda compared to 2.6% for Ghana.¹⁰ Indeed, in 2018, Ghana's population growth was estimated at 2.19%, down from 2.50% in 2010. Uganda's population growth, by contrast, had risen from an estimated 3.19% in 2010 to 3.72% in 2018. The higher population growth, however, has not translated into accelerated urbanisation and the associated benefits of higher productivity and

rising incomes. More than 75% of Ugandans live in rural areas, with the vast majority of them involved in peasant agriculture, which has low productivity and correspondingly low incomes and contribution to the GDP of less than 25%. (In 2014, the United Nations listed Uganda in its *World Urbanization Prospects Report* as the world's fourth least urbanised country out of a group of 10, with an urbanisation rate of 15.8%. By 2018, its urbanisation rate had increased to about 23.8%, and it was no longer listed as among the least urbanised countries, reflecting marginal growth in urbanisation since 2014.)

¹⁰ The steep growth in population may be partly due to the influx of refugees from neighbouring countries who have settled in Uganda permanently since the early 1960s (Source: Encyclopaedia Britannica, <https://www.britannica.com/place/Gulu>). Gulu is host to a large number of such refugees. As of 2018, there were 1.4 million refugees in Uganda, according to the UN Office for the Coordination of Humanitarian Affairs. According to the 2014 Uganda population census, however, the proportion of non-Ugandans in the country had declined from 3.6% of the total population in 1993 to 1.5% in 2014. This has implications for future population management policies.

2.5. Governance and Decentralisation

Ghana and Uganda practise a hybrid republican-parliamentary form of government, with a president and a parliament. Both have had considerable experience with military rule or one-party governments in the past, with Ghana returning to democracy in 1993 after 11 years of military rule and Uganda transitioning from a 20-year, non-party form of government to a multiparty one in 2006.

Unlike Ghana, Uganda has a policy of promoting women's participation in politics. As a result, women made up nearly 35.0% of Uganda's parliament in 2019, compared to only 13.1% for Ghana the same year.

Decentralisation – which comprises the sharing of political, administrative, and fiscal powers between the central government and local governments – is a constitutional requirement in both countries and has been implemented in various forms over the years.¹¹ The 1992 constitution of Ghana, for instance, called for steps to be taken to “make democracy a reality by decentralizing the administrative and financial machinery of government to the regions and districts” (Republic of Ghana, 1992), whilst Uganda's 1995 constitution urged the state to be “guided by the principle of decentralisation and devolution of governmental functions and powers to the people at appropriate levels where they can best manage and direct their own affairs” (Republic of Uganda, 1995). Both countries appear to have made greater strides in political decentralisation than they have on administrative and fiscal decentralisation.

Their efforts at political decentralisation date back to the 1980s. In 1986, Uganda established “Resistance Councils,” following more than five years of political turmoil and guerrilla war by the National Resistance Movement, and in 1988 Ghana, under military rule, created the district assemblies, ostensibly to bring power to the people. When Ghana returned to civilian rule in 1993, it operationalised the constitutional provisions for decentralisation with the enactment of the Local Government Act (1993). After understudying Ghana's decentralisation system in the early 1990s, Uganda eventually passed the Local Governments Act of 1997.¹² With the assistance of donors, the two countries later collaborated in other areas of policy formulation, including the enactment of the Uganda Public *Finance* Management of Act of 2015 (Government of Uganda, 2015a) and the Ghana Public *Financial* Management Act of 2016 (Government of Ghana, 2016a). Both laws have extensive provisions for local governments.

Despite the return to multi-party democracy at the national level, local elections in both countries remain non-partisan and in some ways restricted by the preferences of the central government. In Ghana, the president continues the practice from the military era of appointing district chief executives as well as 30% of assembly members in consultation with traditional authorities and other identifiable groups, with the remaining 70% chosen from non-party local elections. In Uganda, however, *all* local government officials are directly elected, but still on non-party lines. As of 2019, there were 260 district assemblies in Ghana; in Uganda, there were 127 districts (plus the City of Kampala) as of 2018.

Table 4: Profiles in governance - Ghana and Uganda.

	Ghana	Uganda
YEAR OF INDEPENDENCE	6th March, 1959	9th October, 1962
YEAR OF CURRENT CONSTITUTION	1993	1995
GOVERNMENT TYPE	Parliamentary-Republican	Parliamentary-Republican
WOMEN IN PARLIAMENT (%)	13.1 (2019)	34.86 (2019)

Data sources: Various.

¹¹ The two main types of decentralisation are “devolution,” where local governments are given various degrees of legal autonomy to take and implement certain decisions locally, and “deconcentration,” where national departments operate locally but report directly to the central government. In practice, the two overlap along the political, administrative, and fiscal dimensions of decentralisation, and the degree of local autonomy depends on a country's peculiar political, economic, and social history as well its development ambitions.

¹² Author's communication with Prof. Kwamena Ahwoi, Minister of Local Government and Rural Development, Ghana (1993-1997), and host to Ugandan official delegation that visited Ghana on a study tour for decentralisation in the mid-1990s. Note, too, the difference in the names of two acts: “Local Government” (singular) for Ghana and “Local Governments” (plural) for Uganda.



Residents of informal settlement, Jinja, Uganda

Photo: @Cities Alliance

Whilst political decentralisation, the most visible of the three pillars because of the election or appointment of local officials and the very public nature of their functions, appears to have been the most successfully implemented so far, administrative decentralisation, which deals with the capacity to deliver development, has been fraught with many challenges in both countries. With the central governments responsible for the salaries of core local government staff, their human resource decisions have a direct impact on the administrative capacity of local governments. In Ghana, the frequent transfer of staff between districts, sometimes without the knowledge of chief executives, has been known to disrupt the institutional stability that assemblies require to manage their development effectively.¹³ In Uganda, wage ceilings by the central government mean that some newly created districts have been operating with as little as 13% of the required staffing capacity. Political interference in the work of local governments is also rife in both countries (Mushemeza, 2019, p. 17).

Fiscal decentralisation, which deals with the power of local governments to tax and the financial obligations of the central government to local governments, has been even more problematic. In Ghana, composite budgeting, as a central plank of fiscal decentralisation that would enable local governments to integrate the financial plans of decentralised departments and the assemblies into a single document, was only introduced in 2012, "after

2 decades of planning" (Government of Ghana, 2015, p. iv). Other elements of fiscal decentralisation included assisting local governments to broaden their sources of revenue (such as the naming of all streets and the provision of street addresses in the country) and an "inter-governmental fiscal framework," which dealt with "the assignment of functions; authority for decision-making over resources and staffing; taxing and regulatory responsibilities; funding arrangements; financial management and accountability" (Government of Ghana, 2014, p. 26). For Uganda, fiscal decentralisation has been described as "one of the less implemented pillars" of its decentralisation programme, despite the existence of various policy documents, including a fiscal decentralisation strategy and a fiscal decentralisation architecture (Mushemeza, 2019, p. 30). The problems of fiscal decentralisation in Uganda include the allocation of conditional grants without reference to agreed formulas, underfunding of projects that results in inadequate service provision, and shortfalls in budgetary allocations (only 14% of development expenditures received by local governments, compared to 58% by central government departments) (Mushemeza, 2019, p. 31).

It is clear from the foregoing that both countries have to undertake considerable reforms in their decentralisation programmes to strengthen local governance and thus indirectly support local economic development, the foundation stone for national development.

¹³ This was revealed during various workshops conducted by the author in December 2019 for a related project on investing in local economies in Cape Coast and Agona West districts in Ghana.



3. LOCAL GOVERNANCE IN ACTION



Photo: @Cities Alliance

This section reviews the structure, functions, finances, and economies, among other topics, of the four cities involved in the study.

3.1. Structure of Local Governments

In Ghana, the assembly, as the highest decision-making body for the district, is made up of the chief executive, the appointed and elected assembly members, and members of parliament for the constituencies that fall within the district. A district coordinating director, the most senior civil servant in the district, serves as the secretary to the assembly. Depending on the legal status of the district, there are sub-structures of governance ranging from sub-metros for the metropolitan assemblies to urban and zonal councils, and unit committees. A presiding member, equivalent to the speaker of parliament in charge of legislative and deliberative affairs, is elected every two years from the ranks of the assembly.

In Uganda, according to the Local Governments Act of 1997, district councils shall consist of the following:

- a. the district chairperson, elected under Part X of this Act;
- b. one councillor directly elected to represent an electoral area of a district;
- c. two councillors, one of whom shall be a female youth, representing the youths in the district;
- d. two councillors with disabilities, one of whom shall be a female, representing persons with disabilities; and
- e. (women councillors forming one-third of the council such that the councillors elected under paragraphs (b), (c) and (d) shall form two-thirds of the council.

A speaker and a deputy speaker are elected by the council from among its members.



Table 5: Profiles of the four cities.

	Ghana		Uganda	
	Agona West Municipal Assembly	Cape Coast Metropolitan Assembly*	Mbale Municipal Council	Gulu Municipal Council
POPULATION (2018/2014)**	144,321: 76,634 female (53.1%) and 67,687 male (46.9%)	242,792: 124,455 female (51.3%) and 118,337 male (48.7%)	92,863: 48,518 female (52.0%) and 44,334 male (48.0%)	149,802: 75,152 female (50.2%) and 74,648 male (49.8%)
GOVERNANCE	Political head is chief executive appointed by the president and supported by elected assembly members (70%) and appointees by president (30%).		Mayor, assisted by a deputy and an executive committee of secretaries; council is made up of elected councillors and is legislative bod.	
MAIN RESPONSIBILITIES	<p>Local roads; Public transport; Trade and industry; Tourism; Environmental management and improvement; Sanitation; Development of infrastructure; Development, management and improvement of human settlements;</p> <p>Town and regional planning; Water provision; Refuse collection; Cemeteries; Slaughterhouses; Pre-school to junior high school; Education sponsorship; Family welfare services; Welfare homes; Social Security</p>		<p>Agriculture; Tourism; District and community access roads; Public transport and public vehicle parking; Sanitation; Refuse collection and disposal; Environmental protection;</p> <p>Consumer protection; Public parks, gardens and recreation grounds; Town planning; Regional planning; electricity & Water supply (joint); Pre-school; Primary and secondary education; Vocational and technical; Family welfare services; Social security</p>	
ECONOMIC HIGHLIGHTS	Mainly commercial and agricultural; limited industrial activity; large informal sector.	Mainly services (e.g., public sector and education); industry; high informality.	Dairy and other agriculture; tourism; education, services large informal sector.	Cotton, tea, coffee, corn, etc.; oilseed processing, light manufacturing.
REVENUE SOURCES	(1) Central government (for salaries, capital expenditure, and goods and services; (2) internally generate funds (IGF), and (3) donor and other sources.		(1) Central government (for salaries, capital expenditure, and goods and services; (2) internally generate Revenue (IGR), and (3) donor and other sources.	
PROVIDERS OF UTILITIES	Electricity Company of Ghana; Ghana Water Company; State Insurance Company; Ghana Post.		Uganda Electricity Board; National Water and Sewerage Corporation	

Sources: Ghana Statistical Service (2010) and Uganda Bureau of Statistics (2014); OECD, 2019; various publications.

* There are three types of local governments in Ghana, namely, metropolitan, municipal, and district assemblies, by order of population size, primarily. Cape Coast is one of only 6 metropolitan assemblies, including the national capital, Accra, whilst Agona West is one of 110 municipalities.

** 2018 estimates for Ghana; 2014 census for Uganda (Uganda Bureau of Statistics, 2014).

3.2. Functions of Local Governments

In Ghana, the Local Government Act of 1993 assigns executive, legislative and deliberative functions, to districts, with the following among their responsibilities:

1. Development plans of the district (approved by the National Development Planning Commission, NDPC)
2. Budgets for the approved development plans (to be approved by the Minister of Finance, in conjunction with NDPC)
3. Plans, programmes and strategies for the effective mobilisation of the resources necessary for the overall development of the district
4. Promotion and support for productive activity and social development in the district
5. Programmes for the development of basic infrastructure and provide municipal works and services
6. The development, improvement and management of human settlements and the environment
7. In cooperation with the appropriate national and local security agencies be responsible for the maintenance of security and public safety in the district
8. Ensure ready access to courts in the district for the promotion of justice
9. Initiate, sponsor or carry out such studies as may be necessary for the discharge of any of their functions; and
10. Perform such other functions as may be provided under any other enactment including local economic development, social protection and other emerging roles.

In Uganda, the Local Governments Act of 1997 authorises district councils to “exercise all political and executive powers and functions,” with urban councils in particular given “autonomy over their planning and financial management” when carrying out functions and services listed in Part 3 of the Second Schedule of the act. The schedule lists 31 functions, along with 26 different services to be offered by district councils, including the following:

1. Lighting of streets and public places;
2. Fire brigade services;
3. Ambulance services;
4. Public lavatories and urinals;
5. Pounds for stray animals and clinics for the treatment of sick animals;
6. Public monuments;
7. Sanitary services for the removal and disposal of night soil, rubbish, carcasses of dead animals and all kinds of refuse and effluent;
8. Water supplies outside the jurisdiction of the national water and sewerage corporation;
9. Education services which cover primary and secondary schools, special education, trade and technical schools;
10. Maintenance of roads.



3.3. Sources of Local Government Revenue

The sources of revenue for local governments in the two countries are broadly similar: internally generated funds (IGF), in the case of Ghana, and internally generated revenue (IGR) in the case of Uganda, as well as grants or “decentralised transfers” from the national government, donors, or other sources, in both countries.

In Ghana, decentralised transfers are made from the Districts Assemblies Common Fund (DACF), comprising at least 5% of national tax revenue lodged in the Consolidated Fund and disbursed according to a formula adopted by the parliament every year. Among other things, the formula considers the population of a district, its development needs (such as availability of health facilities, access to educational institutions, and water provision), as well as the revenue performance of the district. Each district qualifies for a minimum transfer from the DACF irrespective of the criteria listed in the formula and is given more transfers based on particular development challenges, such as the depth of poverty, or rewarded for superior revenue performance. Districts also benefit from other central government transfers not linked to the DACF, such as monies for the school feeding programme and other special government initiatives. With respect to IGF, they may generate revenue from the following: (a) licences; (b) fees and miscellaneous charges; (c) taxes; (d) investment income; and (e) rates.

In Uganda, revenue sources for local government are spelt out in considerable detail in Article 190 of the Ugandan constitution (Republic of Uganda, 1995), which gives local governments the power to raise revenue from “rents, rates, royalties, stamp duties, personal graduated tax, cess, on registration and licensing and any other fees and taxes that Parliament may prescribe.” Grants from the central government are divided into three categories, namely, unconditional, conditional, and equalisation grants.

Similar in essence to the practice in Ghana, the Ugandan constitution describes unconditional grants as “the minimum grant that shall be paid to local governments to run decentralised services...” and states that “conditional grant shall consist of moneys given to local governments to finance programmes agreed upon between the Government and the local governments; and shall be expended only for the purposes for which it was made and in accordance with the conditions agreed upon.” The equalisation grant is described as “the money to be paid to local governments for giving subsidies or making special provisions for the least developed districts; and shall be based on the degree

to which a local government unit is lagging behind the national average standard for a particular service.” A Local Government Finance Commission, among other things, advises the president on matters concerning the distribution of revenue between the government and local governments and the allocation to each local government of monies out of the Consolidated Fund.

In addition to these “traditional” sources, cities in the two countries are permitted by law to borrow for their development, but under two vastly different systems. In Ghana, the Local Government Act of 1993 set a ceiling of GH¢2 million (equivalent to US\$30,830 at the time). Without any adjustment to the ceiling as the cedi depreciated, the dollar equivalent steadily lost value and was worth only about US\$435.00 in 2018. As of early 2020, legislative efforts were under way to provide the assemblies with a more robust framework for borrowing over time, without being hamstrung by the loss of the cedi’s value.

By contrast, Uganda provided a more flexible framework for local government borrowing, pegging the ceiling at a maximum of 25% of a district council’s internally generated revenue. However, due to a number of structural and institutional impediments, including weak economies and narrow revenue bases, local governments have not been able to take full advantage of this provision (this is discussed further below).

3.4. Demographics of the Four Cities

The demographics of the cities, in terms of population levels, composition, and spatial distribution, are critical to understanding, for example, the scope of the challenges of providing infrastructure and municipal services to their residents. In Ghana, Cape Coast, as the capital of the Central Region (one of 16 administrative regions of the country), has a population of 242,792, compared with the smaller Agona West, at 144,321. The majority of Cape Coast’s population live in the more urbanised southern parts, whilst the rest live in the semi-rural northern areas.¹⁴ The sparse distribution of the population in both cities, with little or no spatial planning, poses immense challenges for the assemblies in the provision of infrastructure, such as roads, water, and electricity.

For Uganda, Gulu is the bigger of the two cities, with a population of 149,802, compared to 92,857 for Mbale.¹⁵ As the commercial and administrative centre of Gulu District, the city is the largest metropolis in the northern region, with one of the fastest rates of urbanisation, characterised in part by growing informal settlements and thriving commercial activities. Its close proximity

¹⁴ The population figures were based on the 2010 census (Ghana Statistical Service).

¹⁵ Population figures are based on 2014 population figures (Uganda Bureau of Statistics).

to the border with Sudan has made Gulu a favourite destination for refugees fleeing conflict in Uganda's northern neighbours, putting undue pressure on social services. Mbale's population is also experiencing rapid growth and urbanisation, thanks to its proximity to Kenya and its strategic location along the key East African trade route.

Both the Ghana Statistical Service and the Uganda Bureau of Statistics have detailed statistics on populations that districts must make greater use of in development planning. For example, dividing total revenue (for revenue per capita) and analysing the resulting trends gives an indication of the capacity of local governments to provide municipal services to each resident. Close collaboration between local governments and their respective national statistics offices is necessary.

3.5 Structure of Local Economies

As is the case with most developing or post-colonial countries, the "local economy" of each city is essentially the informal economy, which is difficult to regulate and tax. At the same time, however, the demand for infrastructure, such as electricity, water, and sanitation, is always rising in line with the growing levels of activity in this sector. Cape Coast's medium-term development plan provides a description of the informal sector that could easily apply to the other cities. The sector, the plan states, is "becoming more and more important as key player in the developmental process ... a major contributor to the Metropolis's economy." It notes, however, that "it can also become a nuisance and a health hazard," with large numbers of "informal and often unauthorized structures" that block streets and walkways and "contribute to the chaotic traffic situation in the Metropolis, especially the Central Business District (CBD)" (Cape Coast Metropolitan Assembly, 2017, p. 59). The emergence of slums and informal settlements and the consequent pressure on infrastructure services that was observed in Mbale and Gulu could equally apply to the two cities in Ghana.

Generally, the informal sector tends to have a higher proportion of workers in the labour force, in some cases as high as 90% and dominated by agriculture, but a much smaller share of economic output income (about 30% in the case of Ghana). This is due to a number of factors, such as low education and skills levels, inadequate investment (or capital per worker),

use of rudimentary or obsolete technology, and lack of modern entrepreneurship skills, all of which lead to low productivity, low and unstable incomes, and pervasive poverty. This means that even if more of these workers are brought into the tax net, their contribution to tax revenue will remain comparatively low.

Whilst the formal sector is comparatively small (in terms of employment, at least), its generally high-value services and better-educated and well-equipped workforce helps to offset some of the downside of the informal sector. In Cape Coast, the presence of the University of Cape Coast, other tertiary and secondary institutions, and several formal sector businesses in the hospitality industry, as well as its status as a regional capital, are largely responsible for the city having the highest per capita income of the Central Region. Two universities and a medical school in Mbale also make similar contributions to the city's economy.

Formalising the informal economy will contribute to changing the structure of local economies for the better, but the current approach of simply roping the informal sector into the tax net through increased registration is not enough. Each local development plan must have a strategy for formalising the informal sector by working with small-business associations (SBAs) and professional trainers in business development or entrepreneurship to raise the productivity of the sector. Through such collaboration, local governments can also work with SBAs – as some districts in Ghana did in the past – to help improve tax payments from their members. However, in return, the local government must demonstrate by deed – such as the efficient delivery of sanitation services – what the public gets in return for paying taxes.

3.6. Financial Conditions of the Cities

The financial conditions of the four cities are similar in many ways although of different magnitudes. As stated earlier, they are by law entitled to grants of various forms from their central governments, but irregular disbursements and shortfalls in disbursed funds, as well as conditionalities attached to those grants by their central governments, not only deprive these cities of resources for development but also constrain their ability to spend according to emerging and changing local development priorities.¹⁶ In Ghana, 80% of the DACF is required to be spent on infrastructure. Late or non-disbursements, however, can lead to uncompleted or

¹⁶ The delays or shortfalls in disbursements may be due to any number of factors, such as inadequate revenue collection by the central government as well as the failure of some districts to meet performance benchmarks that are tied to disbursements. The deductions at source in Ghana reflect the phenomenon of "recentralisation" by the central government, where basic procurement decisions that are ordinarily the responsibility of local governments are appropriated by the central government, thus weakening the capacity of the assemblies in such basic functions as procurement and contracts management.

abandoned projects, which cost even more to complete later, if they are completed at all. In other instances, such as the construction of schools, the central government sometimes engages contractors and pays them from Accra without the involvement of local officials in project execution or supervision. The cost of such projects, often inflated through procurement fraud, is then deducted from the assemblies' shares of DACF (known as "deductions at source"). Similarly, in Uganda, a significant proportion of grants to local governments are conditional to specific projects, depriving local governments of flexibility in financing local government.

Due to these limitations and distortions in central government transfers, the cities have been intensifying efforts to increase their own revenue. Internally generated revenue as a share of total revenue for Cape Coast, for example, increased from 19.1% in 2013 to 22.9% in 2017 and then jumped to 32.4% in 2018, partly as a result of a special donor-provided software for revenue mobilisation.¹⁷ Agona West, which did not benefit from the software, saw an increase in its local revenue share of total revenue from 16.4% to 17.6% in 2017, followed by 23.6% in 2018. Data from Gulu (but not from Mbale) showed that local revenue peaked at UGX39.8 billion in fiscal year 2017 but declined to UGX30.5 billion by 2019 due to a "glitch in internal revenue forecasting." This is expected to drop further to UGX10.6 billion due to a ban on the collection of taxes from taxi and bus parks (Cities Alliance and UNCDF, 2019a, p. 3). All four cities face other impediments to revenue mobilisation, as discussed below.

3.7. Local Revenue Mobilisation

There are both structural and institutional challenges facing local governments in the mobilisation of revenue in both countries. The most obvious structural challenge is the dominance of the informal economy, which is generally hard to identify and tax. In both Ghana and Uganda, efforts are being made to improve data management in order to bring more informal sector businesses and workers into the tax net. In Cape Coast, the use of a donor-funded software, Tax Revenue for Economic Enhancement (TREE), contributed to a sharp increase in local revenue by 71.0% in 2018, following an average annual growth of 26.7% over the previous

four years (including a decline of about 5% in 2017). The project, however, is a pilot and limited to only a few districts. Similar projects by the German development agency, GIZ, and the World Bank are being rolled out in Agona West and other districts around the country.

Gulu and Mbale face similar challenges in revenue mobilisation, where high degrees of informality and weak technical and administrative systems limit local tax collection. In Mbale, "more than half of the population" is said to be beyond "taxable capacity," according to the project report on the city, whilst a "glitch" in revenue forecasting led to a dip in local revenue collection in 2019. As in Ghana, private collectors have been engaged to assist in revenue collection, with less than optimal results.

Other challenges to revenue collection are leakages, interference by local and national politicians, and meddling by traditional authorities. In Ghana, diversion and outright theft by both district and private revenue collectors remain a major challenge, whilst local politicians are known to discourage the collection of certain taxes because they believe "it makes the government unpopular."¹⁸ Traditional authorities in the districts have also been known to hijack tax revenue during festivals and other events of the year, claiming that the revenue is rightfully theirs because they are the custodians of the land. In Agona West, local political party representatives also opposed the implementation of a revenue mobilisation programme because they felt it would make the central government unpopular, much to the frustration of the cash-strapped assembly. These challenges exist in various forms in Uganda as well, such as councillors who take "arbitrary decisions" on land use without the knowledge or consent of local government officials (Mushemeza, 2019, p. 17).

Besides structural issues that will require many years to address, such as high informality and a low revenue base, technological innovations and institutional reforms with the potential to show immediate results will be required in order to boost local revenue. Donor technology has proved useful in Ghana (and may do so in Uganda), and it must be well coordinated by the ministry or agency responsible for local government to avoid duplication and waste.

¹⁷ The Tax Revenue for Economic Enhancement (TREE) programme, which helped to improve data on businesses and households in the city in Cape Coast.

¹⁸ This is based on a conversation the author had with a district official during the Ghana phase of LEAP.

3.8. Providing Basic Infrastructure

Basic infrastructure is made up of energy, water, transportation, and telecommunication assets and services. These have historically been provided to local communities by the central government through state-owned enterprises (SOEs) or departments of some ministries in developing countries. The Electricity Company of Ghana and Ghana Water Company, for example, have been providing services to local communities for decades. The same applies to Uganda, where the Uganda Electricity Board and the National Water and Sewerage Corporation have provided similar services in various parts of the country since independence (the Board was split into the Uganda Electricity Generation Company Ltd. and the Uganda Electricity Distribution Company in 2001).¹⁹ Ghana has experimented with various forms of private sector participation in both electricity and water supply with mixed and often contentious results, whilst Uganda is in the midst of private sector management of electricity distribution and water provision. All of the four cities under study have thus benefited directly from infrastructure services from SOEs or the central government.

Lack of direct control over the provision of such infrastructure, however, means that local governments are limited in their ability to leverage such infrastructure for development. Lack of coordination between various SOEs and other central government infrastructure agencies, such as those overseeing urban roads, also poses a challenge to local infrastructure assets: water lines, for example, may be damaged by road contractors who work without reference to the water company, disrupting services to local consumers. One way of addressing this weakness in local governance is to establish a “High-Level Coordinating Committee on Infrastructure” chaired by heads of local government and comprising representatives from local government, the central government, private sector, business associations, and civil society organisations. A technical team to assist the committee can be assembled to coordinate work among the SOEs to prevent damage to existing infrastructure and ensure smooth service provision. The high-level committee can discuss matters of policy that require decision making at the highest level, including dialogue with central government officials, and provide direction to the technical committee.

3.9. Financing Infrastructure

In both Ghana and Uganda, the central government has been responsible for other forms of infrastructure, such as roads, although government provision of social infrastructure, such as schools, hospitals, and housing, has long been supplemented by private individuals or businesses. However, with growing urbanisation and the dwindling capacity of the central government to continue to provide infrastructure, local governments are increasingly being called upon to supplement the work of the central government with their own resources.

These governments, however, lack the financial wherewithal to fulfil that mandate due to a number of reasons. As noted earlier, the ceiling placed by the government of Ghana on local government borrowing (which was the equivalent of US\$30,830 in 1993, but by 2018 had dwindled to just over US\$400) makes borrowing for infrastructure development all but impossible. The result is major underfunding of infrastructure of the two Ghanaian cities. Between 2013 and 2018, planned infrastructure spending fell short by nearly 67% in Cape Coast and about 58% in Agona West.

Uganda, as stated before, has a more flexible regime: Local governments can borrow up to 25% of local revenue to finance infrastructure. However, local revenues and a restrictive fiscal framework have led not only to low borrowing levels but to challenges in servicing the little debt they have acquired. As of 2019, Gulu’s debt was only 3.0% of its IGR, whilst that of Mbale stood at 1.5% of 2018 IGR. Indeed, weak revenue growth has affected the ability of Mbale to service its debt, attracting substantial financial penalties from lenders. In general, however, the medium-term expenditure framework (MTEF), with its restrictive three-year time horizon, has meant that most of the debts are short-term, unsuitable for long-term infrastructure projects, and thus attract the kind of punitive fees that Mbale has had to incur. Options for tackling these financing deficits are discussed below.

¹⁹ The counterpart of ECG is GRIDCO, which buys electricity from various power producers, both private and state-owned, and sells it to ECG for onward distribution to customers..



Dmitry Pozhidaev, Global Advisor,
Government Finance, UNCDF

Photo: @UNCDF

4. OPTIONS FOR FINANCING INFRASTRUCTURE



Against the chaotic and grim background discussed in the preceding section, the need for alternative and sustainable financing for local government has arisen. This was a major motivation for the LEAP project. This section reviews six options available for governments both local and national.

4.1. Pay-as-you-go

Under Pay-as-you-go, or PAYGO, infrastructure is financed from current revenue as it becomes available in the course of the budget year. This is the present approach by local governments in Ghana and is largely the case in Uganda. It is an unsustainable option for large infrastructure projects that require high upfront costs. Generally, PAYGO is most suitable for low-cost projects, such as the purchase of equipment or minor construction works.

4.2. Bond Markets and Inter-generational Financing

Inter-generational financing (IF) is based on two public finance principles: (1) No government, no matter how large its economy, can generate enough current revenue to finance the high cost of major infrastructure projects whilst simultaneously taking care of other needs; and (2) for infrastructure that generates benefits over several years, the cost must be spread over future generations to promote not just efficiency but also inter-generational equity. Such inter-generational cost-sharing typically takes the form of municipal bonds or other forms of debt, such as loans. The bond market is the most commonly used source for IF.

4.3. Mixed Financing

Depending on cost, the type of infrastructure, and the application of relevant laws, a government may decide to finance infrastructure through a combination of PAYGO and IF. The techniques for choosing the appropriate combination are part of the process of capital planning and budgeting, including project preparation, prioritisation, and funding strategies.





4.4. Public-Private Partnership

Public-private partnership (PPP) involves collaboration between a government (or a state agency) and a private entity to provide infrastructure or some public services, such as sanitation, in exchange for some agreed payment, including a share of profits or management fees. The nature of PPP varies across national and

sub-national governments and is governed by policy or law. A major assumption underlying PPP is the ability of governments (legally, technically, and otherwise) to negotiate fair deals and to monitor the performance of the private entities involved.

4.5. Civic, Private and Corporate-financed Infrastructure

Civil society organisations, including NGOs or philanthropic organisations, may construct infrastructure, such as schools or libraries, and either manage them or hand them over to a government as part of its infrastructure stock and responsibilities. In the areas of education and health, private schools and health facilities run as businesses constitute a major part of local government's infrastructure stock. Individual philanthropists may also construct and donate infrastructure to local governments. Lastly, as part of

their corporate social responsibility, companies are increasingly providing various forms of infrastructure, such as schools, hospitals, and police stations, either for the communities they operate in or others that they might deem worthy of such assistance. Whilst such gestures can help address the infrastructure needs of local communities, they do also entail budgetary implications for the local governments that will manage them – for example, staffing and operational costs in the future.



4.6. Infrastructure by State-owned Enterprises

Following independence, in the midst of limited state capacity and an under-developed private sector, governments set up a number of state-owned enterprises to help address their countries' infrastructure needs. Whilst many SOEs have collapsed or diminished in importance over the years, others, such as the Electricity Company of Ghana and the Uganda Electricity Distribution Company, have evolved and continue to provide infrastructure services, often under strain of obsolete and inefficient equipment as well as endemic mismanagement. This has led in recent years to a switch to various forms of private sector participation in these state agencies, such as management concessions or equity participation, where private companies have bought majority stakes in SOEs with the presumption that they would also bring investment and superior managerial competencies to them.



Photo:
@UNCDF



5. BOND MARKETS AND PPPS AS OPTIONS FOR INFRASTRUCTURE FINANCING



Jinja, Uganda

Photo: @Cities Alliance

Of the six options listed above, we select two – bond markets and PPP – because of their potential for financing large-scale projects, although local and national governments may still consider the other options under different circumstances.

5.1. Bond Markets

Neither Ghana nor Uganda has a municipal bonds market, although both have nascent corporate and treasury bond markets, and some attempts were made in the past to issue municipal bonds for Kampala. For Ghana, a proposal from 2003 to set up such a bond market has been met with scepticism and resistance in officialdom for a variety of reasons, including a purported “lack of capacity” by local governments to manage such debt.²⁰ Specifically, there are concerns over the potential inflation of contracts and poor project appraisal at the local government level that might push these governments into default in the future, compelling the central government to eventually take over their debts and add to its own fiscal woes. And attempts to issue bonds for the capital, Kampala, proved unsuccessful, partly because of the low borrowing ceiling of 10% of revenue as set by law (Gorelick, 2018). From investors’ point of view, the revenue base of the typical local government is too small to support the kinds of large-scale infrastructure projects that they would like to finance.

Whilst these may be legitimate concerns, the rising infrastructure deficits in the two countries against the backdrop of growing populations and sprawling urbanisation require that, rather than rejecting bond markets outright without offering a viable alternative to financing infrastructure, governments must develop the necessary institutions to protect both buyers and issuers of bonds, whilst filling a crucial void in national development. There are several examples from other developing countries that can be adapted for the unique requirements of Ghana or Uganda, bearing in mind their current stages of development, their quality of governance, and the prospects of future economic and revenue growth (Mensah, 2009).

The following are broad recommendations, subject to further elaboration by experts in bond markets development and customisation for each country, for the establishment of such markets in the two countries.

²⁰ Based on conversations held by the author as Director-General of Ghana’s National Development Planning Commissions and some officials of the Ministry of Finance.





Slum community, Jinja, Uganda

Photo: @Cities Alliance

Local Government Finance Authority: Establish a professionally staffed body with legal protection against political or any form of interference; such an authority will regulate the bond markets and ensure compliance by both issuers and buyers to laid-down laws and regulations.

Project Integrity Measures: To help address potential abuse, such as inflated contracts that would put undue stress on local government finances and lead to default, create an *ad hoc* Project Preparation Oversight Committee, comprising representatives of both issuers and buyers, to supervise procurement and related tasks in order to establish the true value of projects to be funded from a bond. Once the bond is approved and issued, the group should be transformed into a permanent Project Implementation Oversight Committee that, among other things, will monitor disbursement of funds and ensure their efficient use for “bonded” projects. Alternatively, a new group could be created for the purpose to avoid any potential conflict of interest.

Supporting Small Cities to Access Municipal Bonds through “portfolio pooling”: As one of the innovations for addressing municipal bond challenges for small municipalities, create a national body to consolidate or pool common infrastructure needs of eligible local governments into a single portfolio and issue bonds on behalf of those governments, with appropriate safeguards to deal with waste and abuse.

Monitoring the Fiscal Health of Local Governments:

Besides private rating agencies, the central government should collaborate with private or public research institutions to monitor and periodically rank local governments by fiscal health to provide early warning information on local governments at risk of fiscal distress, followed by remedial action by appropriate oversight authorities.

Financial Capacity Development: Build the technical capacity of local governments to conduct cutting-edge financial analysis of revenue and expenditure, including forecasting, as well as dynamic debt management, such as the determination of optimal levels of debt for local governments and the best strategies for financing debt.

Project Preparation Capacity: Establish municipal infrastructure units within each local government to liaise with counterpart offices at the national level, with a broad range of technical capabilities, including the following:

1. Infrastructure planning
2. Project finance
3. Capital budgeting
4. Capital markets
5. Legal services
6. Assets management

5.2. Public Private Partnership

Ghana has had a *national* policy for PPP since 2011 aimed at streamlining several projects that had been a partnership between government and private companies without an official framework. However, deficiencies in the policy led to calls to improve the terms of engagement between the state and private providers of goods and services by making the policy into law. The process is under way. However, a local government finances bill, also under preparation, is expected to give local governments the power to enter into PPP arrangements, subject to “prior approval” from the “minister responsible for finance.”

Uganda had an earlier record of streamlining informal PPP arrangements for infrastructure delivery in 2010. This was transformed into a law in 2015, with a unit at the Ministry of Finance in charge of supervision. Its considerable experience with PPP spans a number

of sectors, such as transport, energy, and water. A concession for the management of the country’s electricity distribution by Umeme, for example, led to a reduction in system losses by nearly 50%, an increase in revenue collection rate from 65% to 98%, and the doubling of electricity access to 10%. A similar concession for Rift Valley Railways, by contrast, nearly missed all its key performance indicators.

In view of the inevitability of PPP as a vehicle for financing large infrastructure projects into the future, it is imperative that both countries support their laws by building technical capacities, either directly or indirectly through reputable consultants, around legal and substantive matters to get the best deals in PPPs for local governments or the national government.



6. LOCAL ECONOMIES AND MUNICIPAL BONDS: THE CASE FOR “NEW LED”



The ability of local and central governments to finance infrastructure in general and municipal bonds in particular ultimately depends on the strength of local economies and the revenue they provide for both levels of government. Yet, local economic development, as a purposeful strategy for growing local businesses and strengthening the revenue bases of local governments, with its own tools of analysis and practice, remains much misunderstood and under-utilised, even misused, in the two countries. This is partly due to the confusing array of definitions and approaches that donors and governments often promote, with undue emphasis on “process” to the relative neglect of substance and what the process is supposed to ultimately attain.²¹ In Ghana, LED is typically restricted to isolated initiatives to support some local businesses, despite the aim of a policy to “mainstream” LED into local development plans. A similar problem exists in Uganda, whose 2014 LED policy offers multiple and conflicting definitions of LED, simultaneously describing it as a “process” and “an intrinsic core component of private sector development,” when the relationship to the private sector should in fact be the opposite – the private sector



²¹. A presentation on LED at the Ghana Urban Forum in Accra in January 2020 did not make any reference to infrastructure, despite its overarching importance to local economic development.

should be part of a broader LED strategy. In both countries, LED is treated more as an adjunct to local development than the centrepiece that it is supposed to be. To address these deficiencies, a new LED strategy, based on three foundational pillars, is proposed and discussed below.²²

6.1. The Three Pillars of New LED

A review of the literature and practice of LED yields the following broad themes: (i) growth of local businesses, (ii) creation of jobs, (iii) provision of infrastructure, (iv) physical or spatial planning, and (v) promotion of social development. These are synthesised into the following three pillars for purposes of efficient planning and monitoring for LED:

1. Economic Development
2. Infrastructure Development
3. Social Development

Activities under the three pillars are interrelated and mutually-reinforcing, creating both a virtuous cycle of infrastructure-stimulating growth and growth in turn providing the resources for further infrastructure investment, including maintaining existing assets and building new ones (see Figure 2).

The economic development pillar deals primarily with the growth of local businesses and the support both local and national governments must give them through efficient public services and other forms of assistance, including financial, to ensure that they operate efficiently and remain globally competitive. For synergy, planning for this pillar should be based on the three main economic sectors of the national economy – agriculture, industry, and services – with the degree of emphasis on each sector depending on the structure of the local economy. For example, more urbanised districts would pay greater attention to industry and services than would more rural districts, which might focus on agriculture and

agricultural services. This pillar contributes to social development mainly through employment, hence every economic development plan *must* have an “Integrated Framework for Job Creation and Decent Work”²³ based on local labour conditions and developed in line with any national policies on employment, with technical support from the relevant national statistics offices.

The infrastructure pillar serves the multiple purposes of contributing to economic development through such services as electricity, water, sanitation, and transport, whilst creating employment for households and providing a range of amenities for social development, including housing, schools, hospitals, parks, libraries, cemeteries, and community centres.

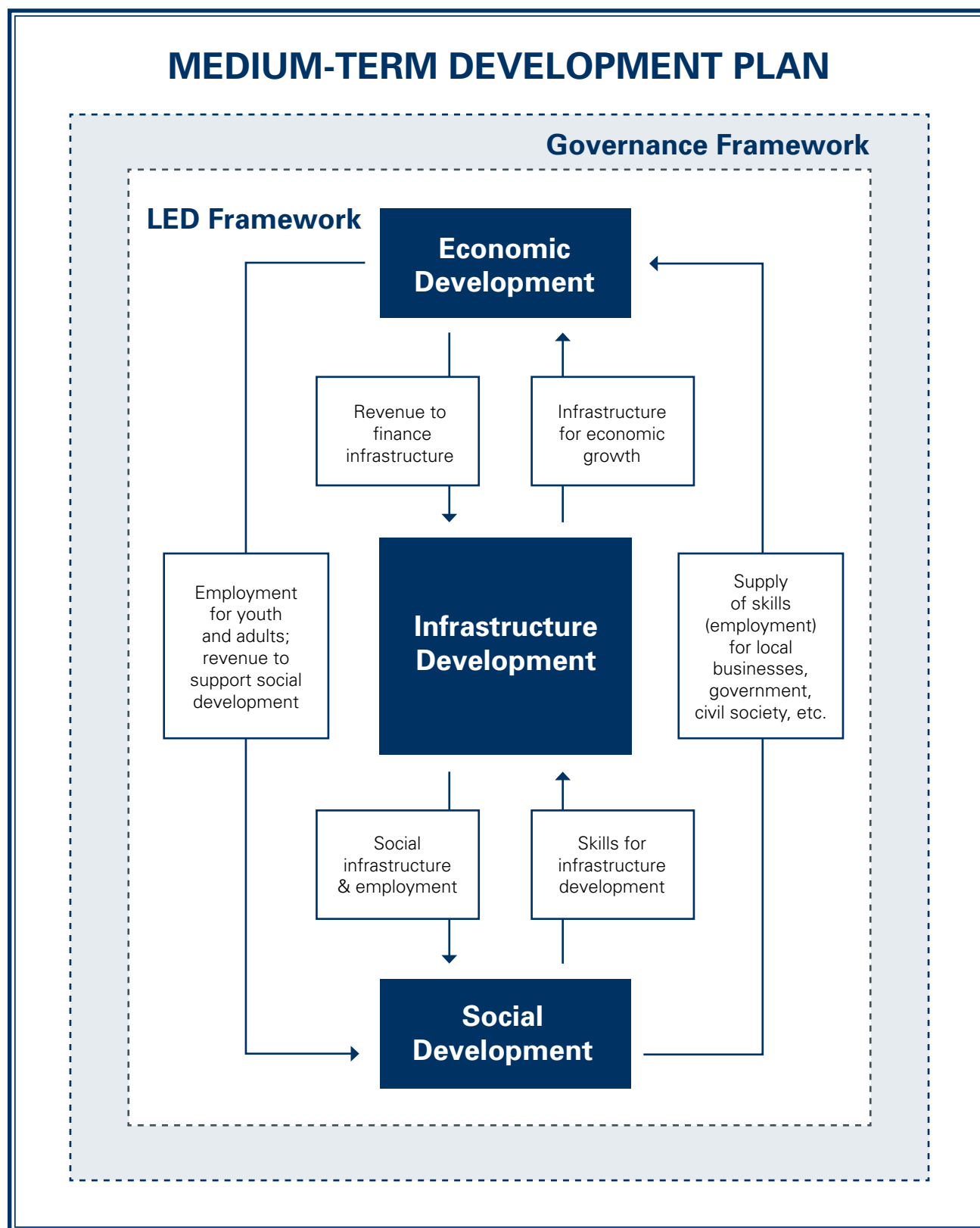
Lastly, the social development pillar serves a number of purposes, including the provision of skilled labour for both economic and infrastructure development through education and training, especially for the youth and other vulnerable groups; providing the public with needed health services; and supplying civic services, such as workers in parks and libraries.

The New LED framework is complemented by a governance framework that deals with such things as public safety, judicial services, public administration, and governance broadly, including how government-community relations are managed to ensure peace, stability, and resilience. The two frameworks are mutually reinforcing. For example, the social pillar provides labour for governance while governance contributes to creating the enabling environment for both the economic and social development pillars.

²² The LED framework will serve as a complement to a governance framework (that is, the development of the institutions of governance) within a broader medium-term development plan, preferably based on a long-term vision or plan for a particular locality or district.

²³ The inclusion of “decent work” in the title is an acknowledgement of the principles espoused by the International Labour Organisation (ILO) that recognise the possibility of people working, but being poor due to low wages, in addition to the lack of legal protection from unethical employers or being forced to work under unsafe and unhealthy conditions; the ILO’s “Decent Work Agenda” helps member nations address these issues in a coherent and consistent way.

Figure 2: Interlinkages between the three pillars of New LED



Source: Nii Moi Thompson (2020).

6.2. Medium-Term Goals of LED

Each pillar has a *medium-term goal* (distinguished by action words, such as “grow” or “promote”) that must be operationalised in local governments’ medium-term plans. These are summarised below:²⁴

Goal 1 – Based on Economic Development Pillar

Grow local businesses to create ample employment opportunities, especially for the youth, women, and other marginalised groups, by creating the conditions for local businesses to flourish (this is known broadly as “soft infrastructure,” discussed below). The focus on job creation by the private sector is particularly important due to the inherently limited capacity of the public sector to create enough jobs. By contrast, a growing private sector will generally demand more labour and thus create employment in a sustainable manner as long as the wider economy is growing. To ensure consistency with national sectoral plans and policies, operationalising Goal 1 must be based on the three main sectors of the national economy, namely, industry, agriculture, and services. It must be accompanied by an “Integrated Framework for Employment and Decent Work”²⁵ prepared by local governments in line with any national employment policies.

Goal 2 – Based on Infrastructure Development Pillar

Provide adequate and efficient infrastructure for businesses, households, and other institutions, including the public sector. The concept of “infrastructure” under the framework transcends the mere acquisition of physical assets, such as roads and power plants, to include their operation, management, and maintenance, as well as the provision of the relevant “infrastructure services” from those assets to their intended beneficiaries with a high degree of efficiency, reliability, and consistency. Anything short of that will reduce such infrastructure to what is termed “dead infrastructure,” which exists only in name and contributes little or nothing to the development of local economies and communities. In some instances, especially when infrastructure has deteriorated in quality due to lack of maintenance, it may become an impediment to growth and development, consuming disproportional shares of budgets due to high operational and maintenance costs.²⁶

In order to attain high standards in infrastructure provision, infrastructure planning (or, broadly, capital planning) must be closely linked to spatial planning.

Among other things, this will help minimise (and prevent in the long term) urban sprawl and the rise of informal settlements that are blighting the urban landscape in the two countries. Linking infrastructure to spatial planning by incorporating trends in population and changes in demographics also assists local government to project demand in municipal services in the future and make the appropriate infrastructure investments to meet those demands adequately.

Goal 3 – Based on Social Development Pillar

Pursue equitable human development by providing adequate and quality services in areas such as education, skills development, health, housing, and public transportation to all local communities. The equitable development of such infrastructure will in turn depend heavily on proper spatial planning that will prevent the uneven provision of certain services, such as schools or health services, in some parts of a district whilst leaving others with nothing. In the medium to long term, successful social development will in turn provide the well-educated and healthy labour force required for Goal 1 and Goal 2 as well as the overall development of cities. This should ultimately lead to rising household incomes, higher local government revenue, and increased capacity for financing additional infrastructure for overall economic and social development.

6.3. Long-term Goal of LED

The long-term goal of a local government’s LED strategy must reflect as much as possible the overall national development vision of the country, such as the elimination of extreme poverty (or destitution) and the achievement of equality and equity in all aspects of life.

6.4. Cross-Cutting Issues in LED

The importance of certain critical issues of development, such as gender and employment, cannot be over-emphasised. However, where such issues can only be addressed across different sectors and disciplines, they must be mainstreamed as cross-cutting issues in local development plans. The issue of gender, for instance, is as much about the right of girls to the same educational opportunities as boys (social development) as it is about the right of women to have the same employment as men (in economic development and infrastructure development), as well as other areas of development broadly. A conscious effort, for example, should be

²⁴ Each goal may be modified to suit a particular local government’s needs.

²⁵ Based on the ILO’s definition, “decent work” includes work that does not only pay well enough to enable workers to afford the basic necessities of life, but also offers working conditions that respect their right to safety, good health, and social benefits, such as sick leave, annual leave, or maternity leave.

²⁶ See the discussion of “infrastructure types” below.

made to encourage women to enter traditionally male-dominated vocations, such as welding and carpentry, as part of any strategy for gender equality. Similarly, gender issues, such as harmful cultural practices that require changes in law or attitudes, should be addressed in the other areas of development and governance, such as through equitable representation in the various professions, either in the public or private sector, or in legislative bodies at local and national levels. An indicative list of issues that may be mainstreamed across sectors, according to the development priorities and assessment of each municipality, is presented below:

1. Gender
2. Climate change
3. Youth development
4. Persons with disability
5. Other marginalised groups
6. Reducing informality
7. Enhancing productivity in local government
8. Others (as determined by each local government)

6.5. Stability and Flexibility in Development Planning under LED

In Ghana, every change in the national government is invariably accompanied by manifesto-driven policies that must be incorporated into the development plans of local governments, whose chief executives are appointed by the president. The practice disrupts the implementation of local development plans and compels local governments to prepare new plans based on the development priorities of the central government every four years. Table 3 shows how this problem can be overcome by having the New LED as a permanent framework for local development planning, with an adjunct framework that can incorporate new development priorities of the central government without the abandonment of existing local development plans. A lot of the analysis required to operationalise the framework is already available in local government documents; the new framework will only provide structure, stability, and flexibility in implementing them.

Figure 3: Aligning New LED Framework with changing national development priorities.

LED FRAMEWORK			NATIONAL DEVELOPMENT PRIORITIES				
	LED Pillars	LED Goals	Policy Priority 1	Policy Priority 2	Policy Priority 3	Policy Priority 4	Policy Priority 5
CROSS-CUTTING ISSUES <ul style="list-style-type: none"> Gender Climate change Persons with Disability Youth development Informality Other issues of inclusiveness Institutional development (reforms and innovation) 	Economic Development	Grow local businesses and create ample employment opportunities and decent work					
	Infrastructure Development	Provide efficient infrastructure services and effective planning of the built and natural environments.					
	Social Development	Promote human development and civic engagement					
GOVERNANCE FRAMEWORK							
INSTITUTIONAL FOUNDATIONS OF LED: POLITICAL AND ADMINISTRATIVE AUTHORITIES <i>(District, Regional, National, and International)</i>							
Institutional Processes to Facilitate LED: (1) Enabling processes, (2) Collaborative processes, (3) Governance processes, and (4) Financing LED (sources and strategies for funding all three pillars)							

Source: Nii Moi Thompson (2020).

6.6. Strengthening Institutional Processes for LED

Policies for the New LED framework will require contributions from a variety of institutions, comprising local governments, the central governments, traditional authorities, professional organisations, businesses associations, civil society organisations, faith-based organisations, and individuals, among others. The processes for soliciting these inputs are as important as the substance of the inputs, given the imperative for collaboration from all quarters, if LED is to succeed. Four main institutional processes, listed below, are proposed to drive the formulation, implementation, and evaluation of the New LED strategy:

6.6.1. Enabling processes:

These processes occur mainly in the public, private, and civic sectors and are meant to build institutional capacities to perform or, in the case of the public sector, deliver essential services for the efficient functioning of local businesses and the community as a whole. Some examples are as follows:

- a. **The public sector:** Build institutional and technical capacity to enhance revenue mobilisation; improve expenditure management; build human resource capacity for local government; develop the capacity to gather, analyse, and use statistics for local development; develop effective and transparent systems to curb corruption and waste in local government; and strengthen systems for delivering services, such as sanitation, business services, education, health, housing, and public transport, to businesses and households.
- b. **The private sector:** Develop the capacity to manage businesses and improve efficiency, productivity, profits, and wages; address shortage of skilled labour; improve access to raw materials; improve access to new markets (domestic and international); promote supply chain development; and improve access to affordable credit.
- c. **The civic sector:** Provide research and advocacy to strengthen policy making, development management, implementation of LED, and monitoring and evaluation of various policies or projects.

6.6.2. Collaborative processes:

These processes will involve building alliances between local governments and the following: national government and its local representatives; representatives

of other sub-national bodies; business and professional associations; civil society organisations; faith-based organisations; international development agencies; traditional authorities; and others.

6.6.3. Governance processes:

These will include the process of decentralisation and the implied transfer of power, authority, mandates, and resources; systems for the appointment or election of local officials; systems to improve the quality of political and administrative leadership; systems to improve the technical capacity of local governments to manage development; and other systems for building institutions of governance in both the public and non-public sectors.

6.6.4. Financing LED:

This process involves continuous efforts to identify viable sources and strategies for infrastructure financing, including local, regional, national, and international sources. The strategies may include public-private partnerships for financing big-ticket infrastructure projects, or joint ventures between adjoining districts and the private sector for such vital infrastructure as waste management systems and public transportation.

These processes are not mutually exclusive and may overlap and complement each other, depending on the purpose, cost, timing, and other factors determined by the local government involved and possibly the national government, among others.

6.7. Understanding the Importance of Institutional Architecture

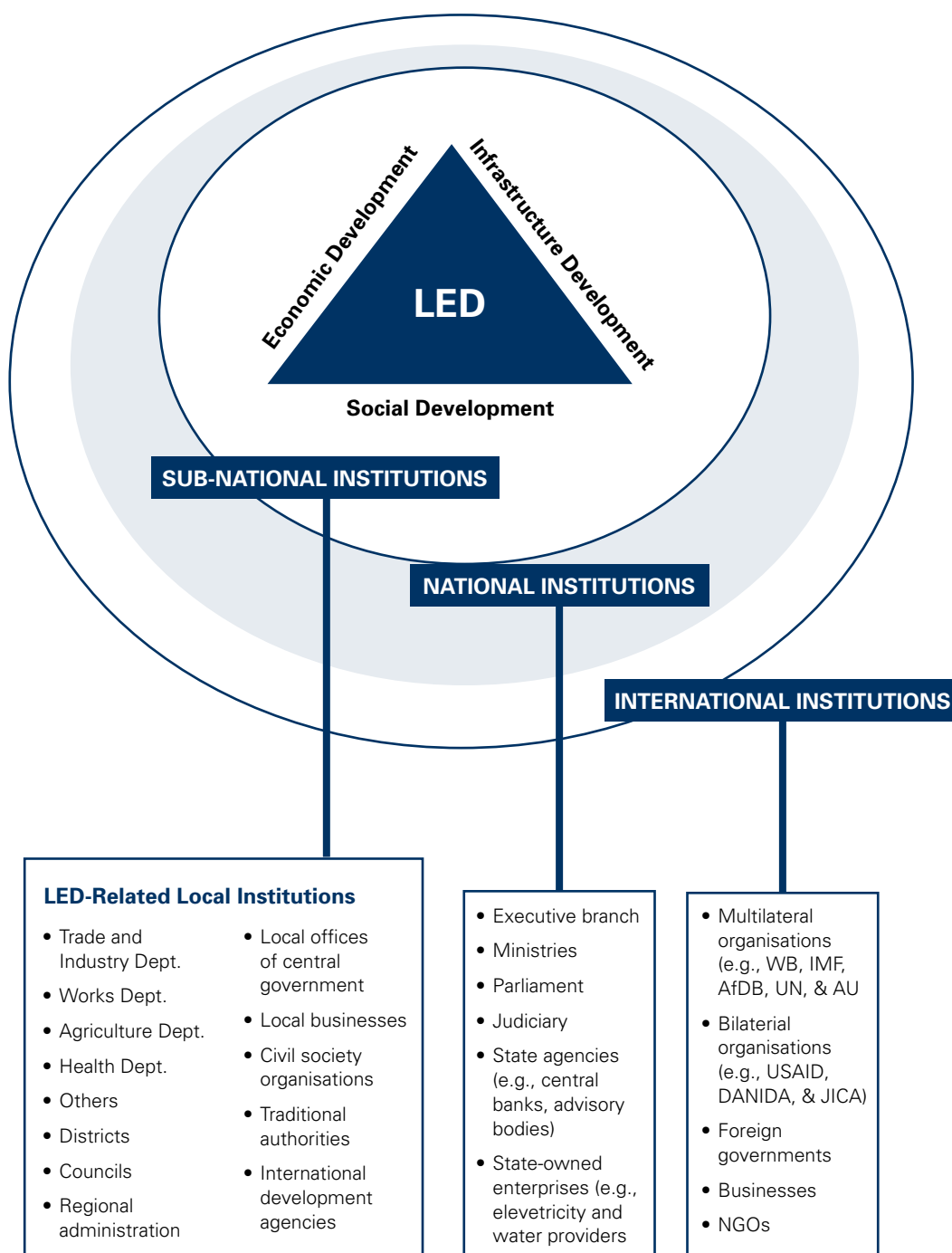
Strong institutions, defined as organisations and the laws, regulations, policies, ethics, values, systems, and resources that enable them to perform their duties, are fundamental to the successful pursuit of the national or local economic development agenda. For LED, in particular, the tendency has been to focus almost entirely on local institutions in explaining success or failure, to the virtual exclusion of outside institutions. Yet, the activities of some of these “external” institutions can have serious effects on LED.

Understanding how these institutions work, strengthening them, and including them in risk analysis frameworks that every district must include in its development plans is essential to building the resilience of local governments to deal with unexpected threats to their plans. Figure 4 summarises the multiple and often overlapping institutional contexts for LED.

Besides the institutions that local governments have direct control over, such as the various departments, the work of other institutions may have direct or indirect effects on LED. Monetary policy by the central bank, for example, can spike inflation, which would lead to an escalation in project costs or the overall cost of doing business, undermining the success of an otherwise

good LED strategy. It is important to anticipate such risks under different scenarios and plan for them. In engaging with the central government at various times, local governments should also remind the central government of the indirect effects of high-level national policies, such as monetary policy, on the financial and economic fortunes of local economies.

Figure 4: Interrelated institutional relationships for LED.



Source: Nii Moi Thompson (2020)



Kampala, Uganda

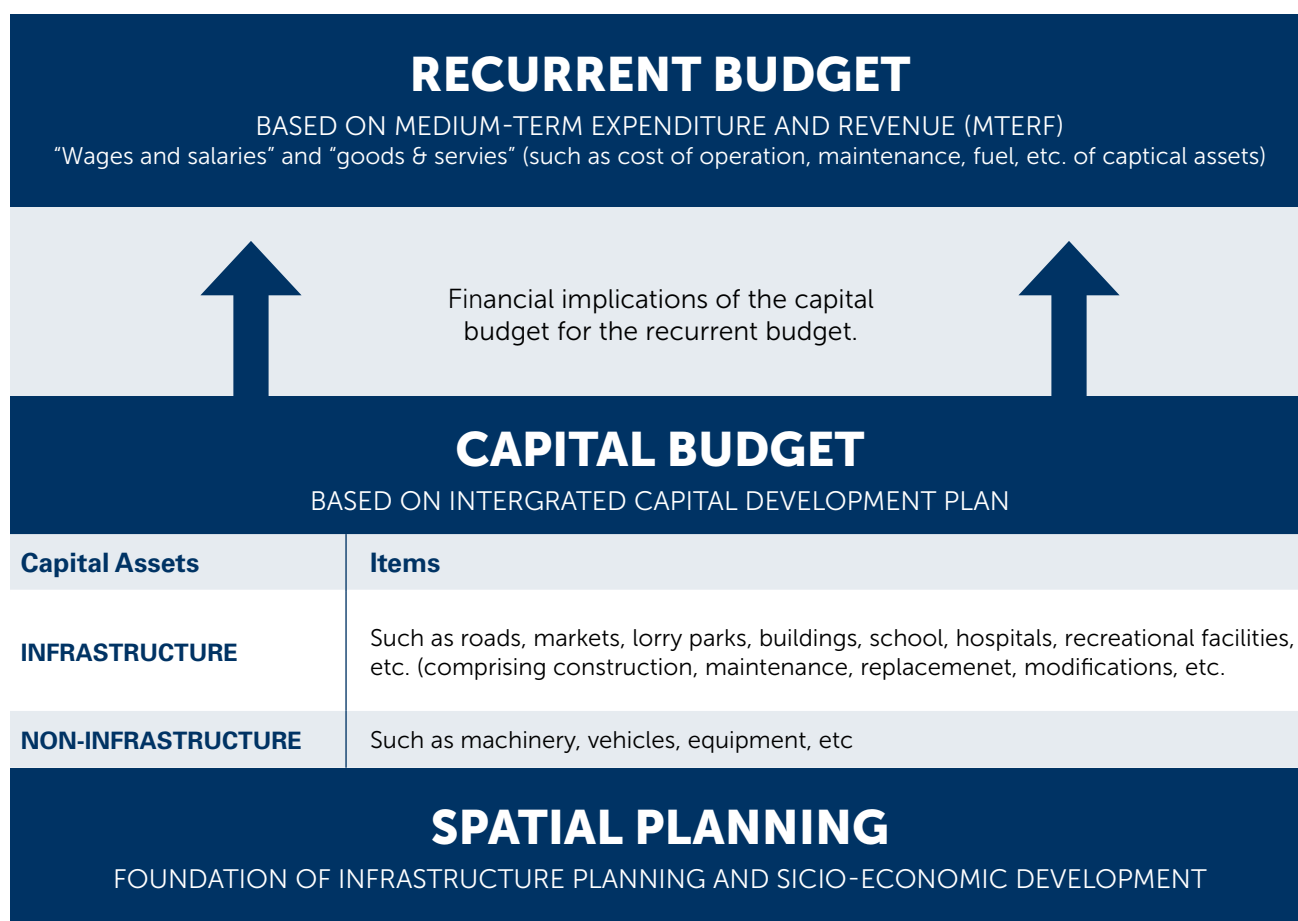
Photo: @Cities Alliance

6.8. Budgeting for New LED

None of the cities in Ghana had comprehensive capital budgets or plans. Gulu and Mbale had rudiments of capital budgets, but they lacked some essential elements of modern capital budgets, such as the financial implications of current infrastructure spending on their future recurrent budgets, with respect to staffing and operations costs, for instance.

This crucial missing link is restored in Figure 5 below. At the base of the framework is spatial planning, which is literally the foundation for effective capital planning and budgeting. Effective spatial planning prevents urban sprawl and helps manage urbanisation effectively by reducing the cost of extending utilities, for example, new communities.

Figure 5: Proposed framework for budget reforms.





7. INFRASTRUCTURE AND NEW LED



Photo: @Cities Alliance

In discussing the catalytic role of infrastructure under the New LED framework, it is important to establish a common understanding of what we mean by “infrastructure” – physical infrastructure, infrastructure services, and “soft” infrastructure – especially in developing countries, where weak institutions tend to compromise the quality of soft infrastructure.

7.1. Types of Physical Infrastructure

As previously noted, physical infrastructure includes assets and systems such as roads, water treatment plants, sanitation facilities, power plants, buildings, and other structures that enable a community’s businesses (including local government) and households to function. On the basis of this definition, four types of infrastructure – economic, commercial, social, and civic – are proposed and discussed below. The classification is meant to guide policy makers and development practitioners broadly in infrastructure planning.

7.1.1. Economic infrastructure:

This includes such facilities as power stations, water treatment plants, transportation assets, and telecommunications networks. They are sometimes referred to as basic or core infrastructure because they are critical to the very existence and functioning of businesses, governments and households; without them, modern economies and societies will grind to a halt. There are various interdependencies between some basic components of infrastructure that urban planners and managers must always bear in mind. For example, a lack of electricity can paralyze water pumping stations, leading to a shortage of two of the most important ingredients for local development – electricity and water.

7.1.2. Commercial infrastructure:

This is closely related to economic infrastructure and may comprise such facilities as open-air markets (or retail spaces, broadly), storage facilities (for farmers and fishermen, for example), factories, offices, irrigation systems, sanitation services, hotels, car parks, and lorry stations. To various degrees, the activities of commercial infrastructure depend on basic infrastructure. An irrigation





supply of electricity to pump the water into pipes. Erratic electricity supply can thus have an indirect impact on agriculture and food prices, which in turn can affect inflation and living standards.

7.1.3. Social infrastructure:

Such infrastructure comprises mainly facilities such as schools, hospitals, and housing that are primarily for use by households. These are typically provided by either government or private operators, with government dominating in basic schools and health facilities, for instance, alongside private sector providers, especially in unplanned settlements where government services tend to be limited.

7.1.4. Civic infrastructure:

This includes public parks, libraries, monuments, community centres, sporting facilities, and cemeteries. More often than not, these are the preserve of government, although the private sector is also often active in some areas, such as community centres.

The emphasis on or prioritisation of a particular type of infrastructure will depend on a number of factors as determined by each local government. None of the cities in the project, for instance, plan for “retail space” in anticipation of growing populations and increasing economic activities. The result is overcrowded open-air markets, where retail activities spill over onto pavements and roads, aggravating human and vehicular congestion, both of which constrain productivity and LED.

7.2. Difference between infrastructure and infrastructure services

Erecting physical infrastructure is only the first step in placing infrastructure at the centre of the New LED. Ensuring that such infrastructure produces the infrastructure services it is supposed to provide is the second and equally critical step. In many developing countries, it is not uncommon, for instance, to hear of power plants that generate less than their installed capacity (if they generate anything at all) or water treatment plants that produce less water than is required by the population, leading to water rationing through tankers and buckets, with all the risks of water-borne diseases that that entails. Other examples include street lights or traffic lights that do not function, poor-quality but expensive internet services, as well as school and community libraries with outdated or insufficient books. Such dead infrastructure that offers sub-optimal services creates an illusion of progress by its cost or book value, whilst in fact contributing little or nothing to LED, possibly even undermining it.²⁷

The causes of these disparities between physical infrastructure and infrastructure services range from poor planning (such as failure to relate population growth to energy and water demand in the future, leading to overwhelmed systems of generation); poor maintenance culture (in the case of traffic, street lights, and libraries); weak regulatory oversight (in the case of poor but

²⁷ Research by the World Bank (Straub, 2008), for instance, has shown that the relationship between infrastructure and economic growth in developing countries may not always be positive, due to “intangibles” that mediate between physical infrastructure and the services they provide.



Medical Centre, Arua, Uganda

Photo: @Cities Alliance

expensive internet services that disproportionately affect the poor); and in the broadest sense, weak spatial planning and the consequent rise in informal settlements in cities.

To overcome such problems, governments must have *comprehensive* and *coordinated* infrastructure development plans, preferably based on wider long-term development plans. Being *comprehensive* means addressing issues on the entire value chain for infrastructure development, specifically acquisition, operation, maintenance, and utilisation, and the interrelatedness of various types of infrastructure. *Coordination*, for local governments, will require collaboration with the central government to ensure coherence in project selection, prioritisation, and funding, among other implementation issues peculiar to specific localities.

The following are broad recommendations, subject to further elaboration by experts in bond markets development and customisation for each country, for the establishment of such markets in the two countries.

7.3. The Critical Role of Soft Infrastructure

In addition to physical infrastructure and the services that they *must* provide in order to be of relevance to LED, local governments must also emphasise the importance of soft infrastructure – that is, the administrative and

customer services that the public and private sectors offer, respectively, to the public. In the case of the public sector, this would include business registration, permitting, and tax payment services, among many others. The efficient delivery of these services, such as cutting down the number of days for obtaining business licenses, building permits, or reducing tax-payment processes, translates into a reduction in the cost of doing business and thus makes local businesses competitive and profitable. Combined with an efficient delivery of infrastructure services, these should contribute to strong local economies.

For the private sector, soft infrastructure would include continuous improvement in entrepreneurship, such as efficient and timely delivery of goods and services, building trust and dependability with suppliers and customers alike, respect for time, attention to product and service specifications, and systems for continuous improvement in customer care, generally.

The sum of physical infrastructure, infrastructure services, and soft infrastructure, therefore, constitute the heart of the New LED and should be addressed holistically by local governments in their development plans. They must be incorporated into frameworks of financing sustainability, effective operation and maintenance, efficient utilisation, and institutional resilience to ensure the availability of infrastructure services at all times, including periods of emergency of any kind.



8. THE MACROECONOMICS OF LOCAL ECONOMIES



Nurse, Medical Centre,
Arua, Uganda

Photo: @Cities Alliance

The ultimate success of policy and institutional reforms, such as strengthening PPP frameworks, establishing a bond market, or building the capacity of local governments to better forecast revenue and manage expenditure, including debt, almost always depends on the macroeconomic conditions of the country. Macroeconomic stability preserves the purchasing power of the national currency and thus the value of local revenue; it also helps businesses plan with a reasonable degree of certainty into the future. The three main indicators of macroeconomic stability are inflation rates, interest rates, and exchange rates. High inflation rates do not only lead to high interest rates and hence pose a threat to bond markets (as this increases the risk of default) but they also increase the cost of credit. In both Cape Coast and Agona West, high inflation rates over the years cut the purchasing power of their revenue by half between 2013 and 2018.

Between the two countries, Uganda appears to have had a better record of macroeconomic stability, with generally low inflation and lower interest rates and depreciation rates against the US dollar. Between 1994 and 2018, for example, the consumer inflation rate averaged 6.4% per year in Uganda, compared to 19.2% for Ghana, whilst Uganda's lending rate averaged about 21.2%, in comparison to 27.5% (see Figures 5 and 6). Uganda, however, has not been able to translate that macroeconomic advantage into strong economic performance, indicating the possibility of inappropriate development policies, pervasive inefficiency in resource utilisation, and general inertia in development management, especially at the national level.



Both countries need robust macroeconomic policies to address these imbalances in support of LED generally and bond markets in particular. For Uganda, this means more aggressive sectoral policies that allow Ugandan business to make better use of the country's macroeconomic advantages, while promoting and sustaining low inflation and interest rates. For Ghana,

a policy to de-dollarise the economy simultaneously with a medium-to-long-term strategy to diversify export products and markets should contribute to lowering and sustaining low inflation and interest rates and promoting overall macroeconomic stability that has eluded it for decades.

Figure 6: Inflation in Ghana and Uganda (%), 1994-2018.

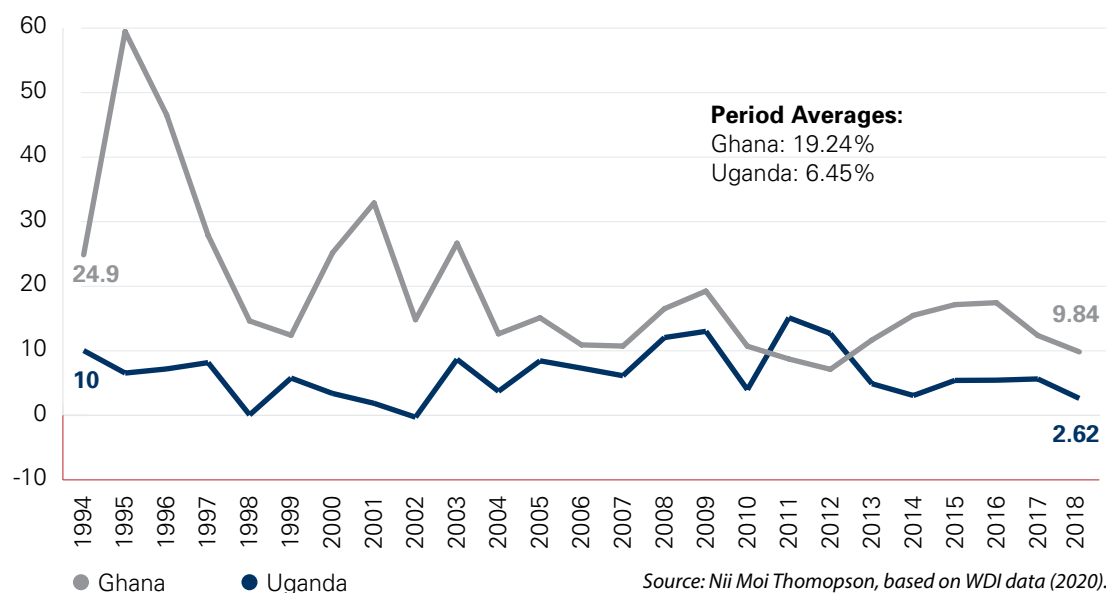


Figure 7: Bank lending rates in Ghana and Uganda (%), 2006-2018.

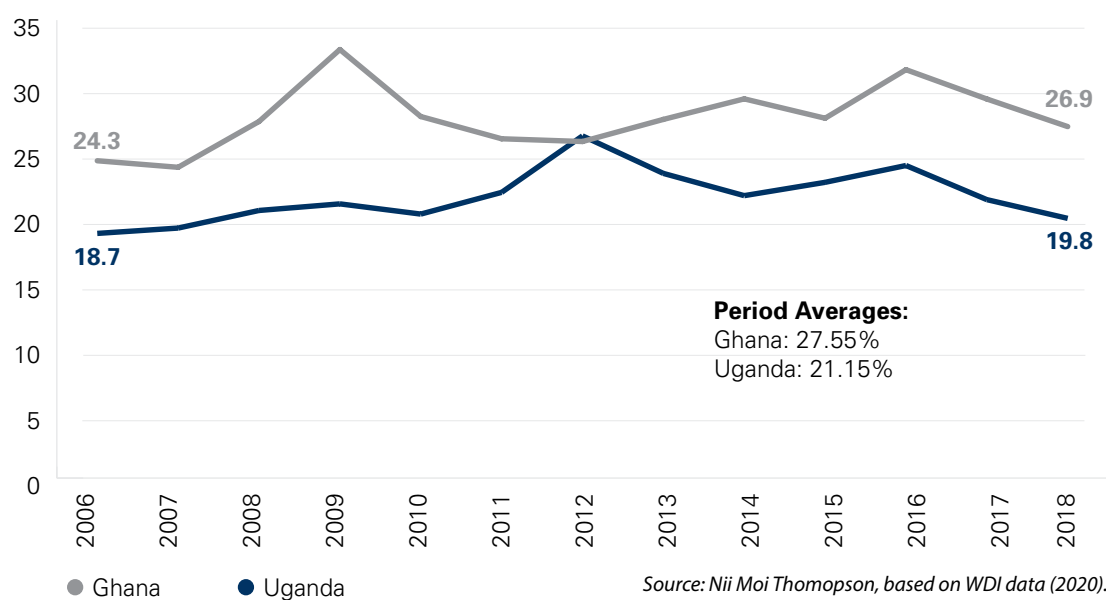


Figure 8: Index of Cedi and Shilling depreciation against US\$ (%), 2007=1.

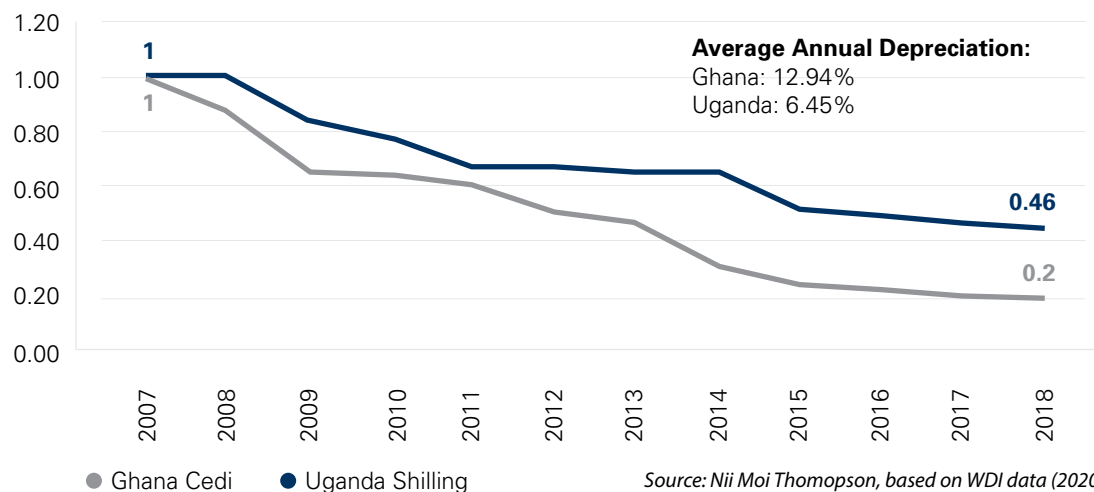


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@Cities Alliance



9. CONCLUSION AND RECOMMENDATIONS



Public School in Arua, Uganda

Photo: @Cities Alliance

Both Ghana (ranked as lower middle-income by the World Bank) and Uganda (ranked low income by the Bank) experienced various degrees of structural transformation in their economies over the past six decades, although Uganda suffered some slippages in recent times, particularly in the agricultural sector. Employment in the sector remained high at about 70% over nearly two decades as the sector's share of overall output declined from about 30% to 24% for the same period. Ghana saw substantial declines in both agricultural output and employment, but most of the labour from agriculture went to services, not the industrial sector, which expanded by only 4.6 percentage points to 18.6% of GDP in 2018.

Higher population growth in Uganda, propelled largely by an influx of refugees from neighbouring countries over the years, might have accounted in large part for the country's lower per capita income – US\$643, compared to US\$2,202 in Ghana in 2018. The higher population growth, however, did not appear to have translated into faster urbanisation in Uganda: as of 2018, the rate was about 24% compared to 56% for Ghana (which had an urbanisation rate of 23.3% in 1960).

Access to electricity, at 22% in Uganda versus 79% in Ghana, confirms the low urbanisation rate and may explain the overall slow pace of economic transformation, despite a relatively strong record of macroeconomic stability in Uganda, compared to Ghana.

With respect to governance, decentralisation, and LED, both countries have generally followed the same paths, and the broader challenges of local government, infrastructure financing, and service provision are similar in many respects. There are more women in the Ugandan parliament (about 35%), for instance, than there were in Ghana's (13.1%) in 2019. The challenges of decentralisation, such as the irregular transfer of financial resources from the central government to local governments and attempts by the central government to recentralise power by withholding resources or procuring goods and services on behalf of local governments, are common threats to decentralisation in both countries.



As is typical of developing countries, their local economies are dominated by the informal sector, posing challenges in revenue mobilisation and modernisation of their economies. The two cities in Ghana, however, have stronger records of growing local revenue than those of Uganda, which are also generally smaller. Unlike Ghana, whose debt ceiling for local governments has been fixed since 1993 and has lost all practical meaning, Uganda's cities are allowed to borrow up to 25% of their local revenue for development. A small revenue base and a restrictive budgeting framework, however, have limited their ability to borrow. As a result, all four cities face various challenges in financing development in general and infrastructure in particular. Basic infrastructure, such as electricity and water, is provided by state-owned enterprises, but the local governments have no control over them, limiting their ability to leverage revenues from these services for LED.

Among the options available for financing large infrastructure are bond markets and public private partnerships in both countries. However, this will require strong local economies from which local governments can raise enough revenue to finance any debt from a bond market and partner the private sector, if need be. A new approach to local economic development is proposed, along with reforms in budgeting and infrastructure planning. There is a need to build the technical capacities of the four cities to manage development and mobilise revenue.

The relationship between macroeconomic stability and local economies is underscored and expounded upon, with recommendations on how the central government, the custodian of macroeconomic policy, can strengthen the relationship.

Summary of Recommendations

National Level Recommendations

- i. **Accelerate structural transformation:** Both countries need to redouble their efforts to transform their economies in ways that move resources, including labour, from less productive sectors to more productive ones in a more balanced and complementary manner. This is the only way they can raise productivity and national income and therefore generate the needed revenue to enable investment in infrastructure and promote national development, broadly. For Uganda, this would require, among other things, an ambitious programme of agricultural modernisation and a national infrastructure plan that reflects its long-term goal of becoming a middle-income country, as outlined in its *Vision 2040* plan. With respect to Ghana, industrial policy must be strengthened to expand output and create more employment in the sector as the relative shares of agricultural output and employment decline. In both countries, the government should treat LED as the foundation of overall socioeconomic transformation and accord it pride of place in national development strategies.
- ii. **Strengthen population management:** Whilst various government policy documents in Uganda have emphasised the importance of managing population growth, it appears that actual policies have not had their intended effects, although the proportion of non-Ugandans (mainly refugees) in Uganda has declined in recent years. For effective population management, the government should take a holistic approach by complementing short-term interventions, such as family planning, with a long-term approach that provides educational opportunities for girls, which keeps them in school as long as boys and thus delays marriage and child-bearing. It must be noted, however, that lower population growth *per se* does not bring development. Slower population growth must be accompanied by equal opportunities for men and women. For Ghana, whose overall population growth has been declining, rural population growth remains higher and requires the same combination of short- and long-term strategies as Uganda to achieve stability in growth between rural and urban areas.
- iii. **Intensify national electrification programmes:** With an electricity access of only 22% (compared to nearly 80% for Ghana and 40% for low-income countries), Uganda needs to intensify efforts to raise the rate as an integral part of its national development strategy. For Ghana, despite the high access rate, there is still the need to increase generation and in particular consumption, which, at 351 kWh in 2014, was low, compared to the average of 759 kWh for lower middle-income countries.
- iv. **Establish bond markets:** Governments can no longer avoid the establishment of municipal bond markets on the pretext that local governments do not have the technical capacity or the financial muscle to access these markets; this is a self-reinforcing argument that provides no viable options but rather allows the problem to fester. The required capacities have been built elsewhere and can be built in Ghana and Uganda as well. The matter of low financial capacity for

smaller municipalities can be overcome with several innovative schemes, such as “pooling.” Effective regulation of the market through close monitoring of the fiscal health of local governments can contribute to the establishment of a successful bond market in each country.

- v. **Pursue robust macroeconomic policies:** Macroeconomic stability, especially in terms of low and stable rates of inflation, interest rates, and exchange rates, will be critical to financing infrastructure and promoting LED. In Ghana, for example, high inflation rates cut the value or purchasing power of revenue in the two cities by about 50% between 2013 and 2018, undermining their capacity to finance infrastructure. The establishment of a bond market, which is proposed for each country, will require low and stable interest rates in order to avoid systemic defaults by local governments that issue bonds. The central government in each country, therefore, must pursue robust fiscal and monetary policies that ensure macroeconomic stability and thus contribute indirectly to infrastructure financing and LED.

Local Level Recommendations

The local issues summarised in the report sometimes overlap and therefore can be addressed by one or more of the recommendations listed below in different combinations.

- i. **Address threats to decentralisation:** Efforts by central governments to recentralise power (and resources) through the procurement of goods and services on behalf of local governments or replacing local officials with their national counterparts have become pervasive in both countries. They are often justified by the need for cost-cutting through bulk purchasing (in the case of Ghana) or the removal of red tape and politics (in the case of Uganda). It is in the strategic interest of the central government to reverse this threat to decentralisation and assist local governments to build their contracts and broader development management capacities as part of a wider strategy to build national institutions for national development. Local governments should be able to negotiate the best deals for the goods and services they purchase as part of this capacity building strategy.
- ii. **Consider population impact in local development planning:** Both the Ghana Statistical Service and the Uganda Bureau of Statistics have extensive and detailed statistics about districts that local governments must

make greater use of. For example, dividing total revenue (to get revenue per capita) and analysing the resulting trends over time gives some indications of the capacity of local governments to provide municipal services to their growing populations (ideally, per capita revenue should rise with population growth). Knowledge of local population trends is also crucial for spatial planning and infrastructure development. Close collaboration between local governments and their respective national statistics offices is imperative in this case.

- iii. **Formalise the informal sector for enhanced productivity, higher incomes, and improved revenue:** For purposes of policy formulation, the International Labour Organisation (ILO) defines informality in terms of labour and mostly micro, small, and medium-scale enterprises. Labour informality includes persons who work in formal sector firms, such as large corporations, in casual or temporary capacities without written agreements for compensation or benefits such as maternity or annual leave. The majority of informal sector workers, however, are own-account individuals who survive on petty trading and other subsistence jobs. Both involve low and unstable incomes with high degrees of vulnerability – being sick and taking the day off, for instance, means a loss of income, unlike their counterparts in the formal sector. Informal enterprises, on the other hand, maybe be registered but otherwise operating outside legal norms, such as failure to pay taxes or obey certain government regulations, or they may not be registered at all. In both cases, they are characterised by low productivity and low incomes, which makes it difficult to raise adequate revenue from wages and profits and to fight poverty over the long term. To these two dimensions may be added infrastructure, such as open markets and commercial vehicle stations, that are mostly used in the informal sector. Much of this infrastructure is often decrepit and inefficient, adding to the cost of doing business, which in turn reduces profits and household incomes. To various degrees, the above conditions exist in the cities that were studied. Any formalization programme must take all these factors into consideration, drawing on the ILO’s Recommendation No. 204 (2015), which provides technical assistance.²⁸

- iv. **Address technological and institutional challenges to revenue mobilisation:** Besides structural issues, such as high informality and associated low revenue base, which will require

²⁸ Under Recommendation No. 204, the ILO supports its member states in conducting diagnostics of the informal economy and initiating programmes for formalisation. The support includes assisting national statistical offices with the production of statistics, appropriately disaggregated, for monitoring progress towards formalisation as part of SDG 8.

many years to address, technological innovations and institutional reforms, with the potential to show immediate results, will be required to boost local revenue mobilisation. Donor technology has proved useful in Ghana (and may do so in Uganda) and it must be well coordinated by the ministry or agency responsible for local government to avoid duplication and waste. Leakages, including waste or outright theft by revenue collectors (both employees of local governments and private collectors), must be addressed as a matter of urgency.

- v. **Coordinate basic infrastructure services from state-owned enterprises:** To address the lack of direct control over state-owned enterprises that provide infrastructure or utility services, each local government should establish a High-Level Coordinating Committee on Infrastructure to be chaired by the head of local government (district chief executive or mayor) and comprising representatives from the local government, the central government, private sector, business associations, and civil society organisations. A technical team to assist the committee will coordinate work among the utilities and other providers to prevent damage to existing infrastructure (such as pipes or power lines) and ensure smooth delivery of services. The high-level committee will focus on matters of policy that require decision making at the highest level, including collective engagement with the central government, and provide direction to the technical committee.
- vi. **Strengthen public private partnerships framework:** Ongoing efforts to enact PPP laws or strengthen existing ones in the two countries are to be commended. These, however, should be supported with continuous capacity development by both local and national governments on key areas of PPP, such as legal services or substantive technical matters, to help them in monitoring PPP arrangements and getting the best from them. This could be a combination of in-house capacity development and contractual professional services.

vii. **Adopt a new approach to local economic development:** The health of local economies is critical to assessing the capacity of local governments to finance their infrastructure. However, current approaches to LED have failed to live up to expectations, largely because of an excessive focus on “process” at the expense of substance and the common objectives of LED. A “New LED” based on three pillars – economic development, social development, and infrastructure development – and facilitated by a number of interlocking and mutually reinforcing processes is proposed. National governments are encouraged to view local economies as the building blocks of their national economies and so devote special attention to them in national development strategies.

viii. **Adopt new approaches to budgeting:** It appears that the medium-term expenditure framework (MTEF) that Ghana, Uganda and other countries in Africa adopted in the 1990s has undermined capital budgeting (in the case of Ghana) and constrained municipalities to short-term loans for infrastructure that requires long-term financing (in the case of Uganda). A return to capital-recurrent expenditure budgeting is recommended, with particular attention to making provisions for the financial implications of current infrastructure spending on future recurrent budgets. This is critical for effective expenditure management and managing risks to the fiscal health of local governments.

ix. **Link infrastructure development to spatial planning:** Whilst both countries have spatial planning frameworks of some sort, the growing urban sprawl and the emergence of unplanned peri-urban communities mean that physical planners should strengthen spatial planning as the basis for infrastructure development. This will also require serious efforts at land reform in both countries.

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