

LOCAL GOVERNMENT INITIATIVE:

PRO-POOR INFRASTRUCTURE AND SERVICE DELIVERY IN RURAL ASIA

**A synthesis of
case studies**

edited by

Roger Shotton



United Nations Capital Development Fund

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Acronyms and Abbreviations

CARERE	Cambodia Rehabilitation and Reintegration Programme
CBF	Capacity Building Fund
CDC	Commune Development Committees
CDP	Commune Development Planning (Cambodia)
CG	Central Government
CSF	Commune/Sangkat Fund
DAF	Decentralization Allocation Fund
DDC	District Development Committee
DDP	District Development Project
DFDP	Decentralized Financing and Development Programme (Nepal)
DFT	District Facilitation Teams
DIW	District Integration Workshop (Cambodia)
GDI	Gender Development Index
GoU	Government of Uganda
HDR	Human Development Report
IPF	Indicative Planning Figure
ISD	Infrastructure and Service Delivery
LDP	Local Development Programme
LG	Local Government
LSGA	Local Self-Governance Act (Nepal)
MC	Minimum Condition
MRD	Ministry of Rural Development (Cambodia)
NDCT	National Directorate of Territorial Collectivities
NGO	Non-Governmental Organization
O&M	Operations and Maintenance
NATCI	National Agency for Territorial Collectivity Investments
PM	Performance Measure
PRA	Participatory Rural Assessment
RC	Rural Community
RDSP	Rural Decentralization Support Project
TSP	Technical Support Staff
UFT	Union Facilitation Teams (Bangladesh)
UP	Union Parishad (Bangladesh)
VDC	Village Development Committee
WDR	World Development Report



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Foreword

This synthesis and the accompanying case studies were prepared for the February 2004 Regional Seminar and Learning Event on Local Governance and Pro-Poor Service Delivery, hosted by the Asian Development Bank in Manila, Philippines. This Seminar is the occasion for practitioners and policy makers to come together to share lessons and to promote what is a critically important policy agenda in Asia.

UNCDF is delighted to be able to contribute to this agenda, and to do so in partnership with the Asian Development Bank and the Asian Development Bank Institute. We believe that these case studies on the role of local government in pro-poor infrastructure and service delivery in rural areas will help contribute to greater learning and to a more informed policy debate.

We also believe that this is an area which has been neglected. The majority of the literature on local government, and on better service delivery practice, focusses on the urban setting. Yet the challenges for improving service delivery in rural areas by rural local governments are in many ways qualitatively different, and frequently more daunting. Recipes which work for improving big city service delivery are often quite inappropriate when applied at rural Commune level. However, the fact that the great majority of the poor in Asia continue to live in the rural areas is a compelling reason for us to better understand these challenges, and also the opportunities for change.

Indeed the more positive note is that we believe there are important but little-known innovations – in policy, procedure and practice – which can greatly enhance the performance of rural local governments in Asia, and which can be replicated and mainstreamed into policy. The focus of these case studies is on a number of such innovations which UNCDF has been piloting in the countries under review. The three Asian case studies are supplemented by the case study from Uganda, in recognition of the widespread interest that Ugandan experience in decentralization is eliciting.

ABOUT THIS PUBLICATION

This publication includes a synthesis of the case studies, prepared under the editorial direction of Roger Shotton, with substantial contributions by Richard Slater, Andrew Preston and Mike Winter. Summaries of the case studies are included in the appendix, and a CD-ROM with the full-text of the case studies is included with the publication. The case studies themselves cover the following themes:

Bangladesh: Local Governance & Service Delivery to the Poor, by Richard Slater and Andrew Preston. This study outlines lessons on the scope for piloting innovations in financing, participatory planning and implementing of basic infrastructure & service delivery by rural Union Parishad authorities in one district of Bangladesh, and documents their effectiveness, even within a national policy context which is not at the moment especially conducive for decentralization.

Nepal: Local Government Infrastructure & Service Delivery in Rural Areas, by Michael Winter. This study outlines issues and challenges in promoting innovations for more effective and equitable financing, planning and management of basic infrastructure and services by authorities at district and village level in Nepal, and for feeding these into the national policy framework, but within the limits imposed by the Maoist insurgency and the current suspension of local elected bodies.

Cambodia: Decentralization Reforms and Commune-Level Service Delivery in Cambodia, by Leonardo Romeo and Luc Spyckerelle. This study documents the effectiveness of recent innovations in the financing, planning, and management of local infrastructure development and decentralized service delivery by commune councils. These innovations have now been mainstreamed as national policy in Cambodia, as part of the decentralized governance systems of elected commune authorities in both rural and urban areas.

Uganda: Lessons from Experience in Decentralizing Infrastructure & Service Delivery to Rural Areas, by Martin Onyach-Olaa. This study outlines the radical and comprehensive policy and institutional framework for devolution and local service delivery in Uganda and, within this, the role played by such innovations as performance-linked funding to district and sub-county governments in rural areas.

The publication of these studies, together with a set of companion case studies prepared for the Africities Conference (held in Yaounde',

Cameroon, December, 2003) marks the beginning of an important new direction on the part of the UNCDF Local Governance Unit. As an organization with a unique portfolio of operations across the Least Developed Countries, all aiming to promote pro-poor service delivery innovations in partnership with rural local governments, we intend to do more to document our experience and to share the lessons which emerge from this.

We look forward to contributing further to policy debates in this important area and to help, in a very modest way, in achievement of the Millennium Development Goals (MDGs).

A handwritten signature in black ink, consisting of a large, stylized 'K' followed by a horizontal line and a small dot.

Kadmiel Wekwete
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Executive Summary

INTRODUCTION

The Underlying Assumptions

This report (like the case studies it synthesizes) is founded on three assumptions: firstly, that poverty in Asia is still – and despite rapid urbanization – primarily rural (in numbers and in incidence); secondly, that rural local governments (LGs), despite their many weaknesses, have a potentially key role to play in the basic infrastructure and service delivery (ISD) which effective poverty reduction requires; but, thirdly, that the challenges for improving ISD through rural LGs are qualitatively much greater than through urban LGs, and that both these challenges – and also the opportunities – for making rural LGs more effective are poorly understood and documented.

The Local Development Programme approach

The case studies themselves focus on experiences of innovation in improving ISD through rural LGs, and their outcomes, in three Asian countries (Nepal, Bangladesh, and Cambodia) and in Uganda (given the considerable interest, even outside Africa, that the Ugandan experience is eliciting).

These four sets of innovations all share a common framework. They were all introduced within the framework of UNCDF-supported Local Development Programmes (LDPs). The LDP is a generic approach to promoting more effective ISD through rural LGs, by twinning innovations in the funding of ISD with other capacity development innovations to support improved planning, budgeting, implementation, and overall accountability of LGs. These aim to use the innovations as a basis for policy influence and hence for wider replication. Although the LDP model is generic, it is tailored to context.

COUNTRY CONTEXTS

Patterns of similarity and difference

The four countries are of course each very different in very many ways. But one common feature is the fact that in each country poverty is primarily a rural problem: both the relative incidence of poverty is twice as high (or higher), and the absolute number of poor is far greater in rural areas.

The policy and institutional contexts for rural local government and for ISD in rural areas exhibit patterns of similarity, but also important differences. The latter can be viewed along several dimensions:

Institutional and Functional factors:

- Size, population & population density of LG jurisdictions;
- Existence of formal institutional interface between communities and elected LGs;
- Degrees to which LGs exercise control over technical services and extent to which LGs are “organically” linked to sector line departments;
- Relationship between LGs and central government, and degree of supervision and support by the latter.

Fiscal factors:

- Local fiscal revenue raising powers;
- Relative significance and clarity of expenditure assignments;
- Importance and types of inter-governmental fiscal transfer system.

Representational factors:

- Modes of representation and election;
- Statutory representation of disadvantaged and/or minority groups.

Political drive

- The degree of political willingness and drive to empower elected LGs, entrust them with responsibilities and resources and support them.

In brief, the four country contexts can be characterized as follows:

- In Uganda, the institutional framework for sub-national government is a fully devolved one, with two main levels of elected local government: the sub-County (a relatively small unit) and the district (a large unit, with a full complement of line department staff under full council control). There is a strong political drive for decentralization, and these LGs have been fully mandated to undertake all ISD functions; the allocation of financial resources to LGs is being gradually adjusted to match.
- In Cambodia and Bangladesh, there is a relatively small elected lower level local government unit (at Commune and Union level, respectively), with one or two general-purpose employees, and with a limited range of ISD functions. The next higher levels (the district and the province in Cambodia, and the sub-district and the district in Bangladesh), where line department staff are deployed, are deconcentrated. While in Cambodia there is a political drive to move ahead with a decentralization agenda within this framework, in Bangladesh there is little movement accompanied by substantial opposition to reviving the role of LGs.
- In Nepal, there are legal provisions for elected LGs at both the lower Village and the higher district levels (but these are currently suspended due to the insurgency problems); both levels are entrusted with substantial ISD functions, although at district level these are “shared” with the deconcentrated line departments. The policy is to move towards integrating these departments and their funding within the elected LGs, but implementation is subject to reinstatement of the elected bodies.

Opportunities & Constraints

Common opportunities to promote more effective ISD through rural LGs are largely encapsulated in a general formal commitment to democratic

decentralization, such that LGs are expected to provide public goods and services in an accountable, transparent and participatory way, with their own and other resources. They are also reflected in the very considerable organizational resource that LGs represent in rural areas for more effective ISD, albeit a largely under-used one.

Common constraints to this include – among others - a typically very weak local fiscal base (exacerbated by low levels of rural development), inadequate or even perverse centre-local fiscal transfer arrangements, ambiguities in expenditure assignments (both between different LG tiers and between LGs and central government), varying degrees of confusion over sectoral devolution and responsibilities, and sometimes inadequate provision for transparency (exacerbated by the general weakness of the media in rural areas).

LDP INNOVATIONS

The four LDPs have piloted a range of innovations aimed at improving the provision of public goods and services by rural local government. These have aimed to take into account the overall and specific policy contexts discussed above.

Financing

Financing innovations have included the following:

- the allocation of *block grants* aimed at providing LGs directly with the funds to finance development expenditure, and which are allocated according to a clear and known *formula*, calibrated to reflect relative poverty and fiscal need;
- synchronization of these block grants with the LG *budgeting timetable* to provide the discipline of the “hard budget constraint” when local priorities are set;
- a “*cascading*” approach whereby higher level LGs, in multi-tier systems, must pass down the larger share of their grants to lower level LGs;
- providing LGs with considerable *discretion* over the use of such block grants so as to foster accountability and achieve allocative efficiencies, and also to encourage local participation;

- the establishment of *performance-based funding mechanisms* that (a) determine whether LGs access their block grants and (b) whether increase or decrease allocations depend on previous performances;
- *earmarking* proportions of block grants for specific purposes, such as investments which benefit the poor or scheduled caste groups;
- support for *local revenue collection* efforts.

Planning & budgeting

Here, LDP-piloted innovations have included:

- *linking planning to LG budgeting*, thus making both exercises more meaningful;
- testing out cost effective *participatory and inclusive* planning methodologies;
- devising *institutional arrangements* to help bridge the LG-community gap, and the LG-line department gap;
- improving the local planning process by ensuring that it goes beyond participatory needs assessment and takes into account more “*technical*” aspects, such as appraisal, design and costing, etc.

Implementation (“production”)

These have included:

- working within the regulatory framework but *adapting procurement procedures* to the LG context – with *flexibility* to take into account rural realities;
- Devising *simplified procedures and formats* for competitive tendering where private procurement is required;
- setting up *community-based and other local committees* to provide day-to-day oversight of micro-project implementation;
- where necessary, *upgrading contractor and engineering skills* in the private sector;

- providing a *small funding window* in the block grant to facilitate LG access to technical support;
- distinguishing realistic *operations & maintenance roles* of communities and LGs for different types of investment, and integrating operations and maintenance considerations into *planning* procedures.

Capacity-building

Several innovations have been introduced in these areas which underpin all the others outlined above. To help LGs and other stakeholders take full advantage of innovations and correctly use planning and other procedures, LDPs have:

- developed & provided *basic training packages* to a range of actors;
- developed *demand-driven mechanisms* for capacity-building, thus placing LGs firmly in the “driving seat”;
- instituted *local support teams*, comprising local residents, local arrangements to extend and support participatory planning & monitoring of ISD;
- more generally and most importantly, fostered *real-time capacity-building* by “doing”, by providing local stakeholders with the opportunity to plan, finance and deliver public goods and services.

Accountability

Innovations to foster greater accountability have included:

- providing local citizens with *access to information* about LG resources and decisions through comprehensive communications strategies;
- introducing *annual self-assessments* of LG performance;
- encouraging greater *public involvement in planning, budgeting and monitoring* of ISD through participatory planning methods and related institutional arrangements.

OUTCOMES ACHIEVED

Parts 4 and 5 trace the outcomes documented under each of the categories of innovation highlighted above. These can be consolidated under three broad headings

Pro-poor outcomes

It is beyond the scope of the case studies to undertake in-depth assessments of poverty impact of the ISD innovations under review. Thus, the best that can be done is to examine some “proxy measures” which indicate the probable poverty impact.

The outcomes of the *local planning process* (which in turn was enabled by the *financing innovations*) introduced by LDPs have included the following:

- A much *wider consultation* of local citizens, thus providing significant opportunities for the poor to voice themselves, express their needs and influence budget allocations (a very practical form of “empowerment”);
- The great preponderance of expenditure outcomes has been on those sorts of ISD-related investments which are inherently *more likely to benefit the poor than the non-poor*: basic primary access, health, education, and water supply facilities. Furthermore, these are facilities which it is inherently *difficult – and unappealing – for “elites” to capture*.

Implementation outcomes have been of benefit to the poor in a number of ways:

- an apparently *greater cost effectiveness*, better quality and greater timeliness in ISD implementation by LGs;
- improved access to *appropriately located infrastructure*, largely due to local oversight of implementation and implication in the planning process;
- *sustainable benefits* through adequate O&M arrangements in most (but not all) cases.

Institutional outcomes

The incentives embedded in the *performance-linked funding innovations* – allied with more direct capacity support – have led to the following sorts of outcomes:

- *Greater compliance* by LGs with legal and regulatory provisions regarding the conduct of LG affairs and financial management and accountability;
- Greater effort by LGs to adopt institutional arrangements and procedures for *consultation, communication and transparency* to the public;
- Overall, more effective accountability to the public, and to central government.

The key role of information in fostering greater accountability has been clearly shown. Informed citizens have a greater chance of calling their elected representatives to account and of demanding better or more appropriate services.

In terms of finance modalities, whilst outcomes from LG funding pilots have been largely positive – demonstrating the advantages of formula-driven, discretionary block grants and performance-based assessments/incentives – LDP activities aimed at improving LG own-source revenues have yielded meagre results so far.

Policy outcomes & replicability

Ultimately, the replicability of the innovations in policy and practice discussed above depends on their being adopted as national policy. Of the four cases studied, all have had some impact on policy, although this has been greatest in Uganda and Cambodia. Two sorts of policy impact are distinguished according to two types of policy environment:

- Where there is *no clear policy or political drive* to decentralize ISD functions and resources to LGs (as in Bangladesh now, and indeed as in Cambodia in the mid 1990s) the role of a pilot experiment such as an LDP can be to simply show what can be done, to demystify the usual “weak local capacity” allegations, and generally to better arm the advocates for change and to inform national debate.

- In countries where *there is a policy drive* to decentralization (such as Uganda, in Cambodia now, or in Nepal until the troubles) the role of a piloting experiment can be more to test “how to ...” policy options and procedures in direct partnership with national policy-making bodies.

A positive policy outcome appears to be depend on the quality of the innovations themselves and especially how well they are *dove-tailed into the statutory institutional framework*. It also requires close consultation with national and LG partners and a willingness to allow them to manage the process themselves. Finally, however good results and M&E systems may be, positive outcomes do not speak for themselves, and there is need for more *pro-active communication and advocacy* with policy-makers.

LESSONS LEARNED AND FUTURE CHALLENGES

Overall Role of Local Governments in Rural Infrastructure & Service Delivery

A first lesson is that the *challenges* in promoting more effective ISD through rural LGs are indeed much greater than in the urban LG context:

- Promoting a more effective and inclusive *demand* through participatory planning & budgeting is harder because of much higher transaction costs (typically sparse populations, poor communications, etc), lower education levels, weaker “horizontal” associational activity, greater social stratification and dominance of patronage relations, etc.
- Promoting more effective and responsive ISD *supply* is harder because of typically weaker human resources, much lower fiscal resources, the typical institutional divide between elected LGs and the sector departments and their staff and budgets, and a much weaker private and NGO sector.

But a second and much more encouraging general lesson to be learned from the case studies is that – despite these inherent contextual problems - given the right circumstances and appropriate support, *rural local governments can deliver useful public goods and services*, contributing to poverty reduction.

Their performance in this should not be measured against *ideal standards* of effectiveness, inclusiveness or probity, but against the performance of alternative institutional *options* for ISD (central government agencies, NGOs, project teams). The evidence of the case studies is that rural LGs perform quite as well as these other arrangements – indeed considerably better in some cases – given a conducive framework of policies and procedures, and some minimum level of funding.

Improving ISD through LGs can only be *one component* of a much broader strategy for rural poverty reduction: poverty reduction requires many other things than improved ISD, important as that is (appropriate macro-economic, private sector & environmental policies, microfinance, etc); and many key pro-poor ISD functions themselves must be retained by central or higher levels of government (public health, vaccination, crop protection, agricultural research, etc.).

Sector-specific issues

Looking at the role of LGs in specific sectoral ISD activities, several lessons emerge.

Firstly, there are two conclusions regarding those types of ISD which are easier for rural LGs – especially the lower level LGs – to manage:

- “*User Community*”. Rural LGs are best able to plan delivery, and to ensure O&M arrangements where investments serve a small, definable community of users. This is simply because in such cases it is much easier to organize “user communities” for implementation and long term management. Examples are tubewells, small irrigation schemes, village tracks. (These are in contrast to investments such as inter-village or inter-commune roads, or hostels serving pupils from a wide area, which are inherently more problematic).
- “*Vertical Linkages*”. The sectors which it is simplest for rural LGs to manage are those where issues of “vertical integration” are minimal – i.e. where there is little reliance on higher levels of local government or on deconcentrated line departments for “co-production” (recruitment and deployment of staff, or other recurrent inputs, or technical backstopping). Examples of “stand-alone” investments are rural water supplies, tracks & trails, repairs to existing schools or clinics, etc. By contrast, new health facilities pose considerable challenges of vertical linkage.

However, the broader lesson is that devising a more comprehensive and appropriate policy, institutional and financing framework for decentralization of *each of the key ISD sectors* – and tailored to the institutional topography of each of the countries in question - remains a major challenge and one where piloting, research and policy guidance is strongly needed.

Financing

In the area of financing, key lessons include:

- pre-determined and predictable allocations make the *planning process meaningful*;
- providing LGs with discretionary powers over the use of capital expenditure can lead to positive outcomes and is *not at all a recipe for disaster* as is often suggested (provided it is accompanied by clear rules and incentives);
- performance-based incentives can lead to *significant improvements* in the quality of LG processes;
- block grant funding approach also encourages LGs and communities to focus efforts on *mobilizing their own resources* to complement this amount; conversely, it tends to switch the focus of LG politicians away from the unhealthy lobbying of central politicians and officials for extra funds.
- LG *own-source revenues are vital* (not only as a more discretionary funding source but also to enhance the legitimacy of the LG as local polity), but remain a major problem area in rural areas, given the inherent weakness of the rural fiscal base

Planning & Budgeting

Lessons for planning and budgeting include:

- Without linking planning to LG budgeting, and ensuring access to some degree of certain and discretionary funding, there is little chance of *encouraging serious participatory planning*;
- Participatory approaches to LG planning and budgeting are both

helpful and feasible, and LG politicians may see their own interest in promoting this. But care must be taken to introduce approaches which are *cost-effective and sustainable*,

- Participatory processes should not simply be viewed against ideal standards. It must be recognized that all organizational activity tends to be dominated by a few (the “elite”, which at times may also be a progressive one). The key is to ensure *transparency and checks*.
- Promoting participatory planning is about much more than “PRA tools”, useful as some of these can be. Crucially, attention must also be paid to developing the *LG institutional framework* itself, to ensure more effective community-council interface at village or ward level.
- Planning must also go beyond the expression of needs and should include simple “*technical tools*” to help appraise, cost and rank very different proposal in a transparent and consistent manner. There is also scope for “tools” to promote *gender and poverty targeting*, but they need to be clearly devised and applied carefully.
- Planning procedures based solely on “community proposals” tend to be *biased* towards very small, local initiatives, and to neglect more strategic and public forms of ISD. Procedures must therefore also allow for inclusion of proposals from higher institutional levels, to capture the broader public interest.
- The politics of LG resource allocation also tend to be *biased*: towards “equal” shares for all councilors or villages, at least initially; towards social facilities yielding broad-based benefits, neglecting economic investments typically favouring a few; and towards initiatives with short term benefits. Such biases can be partly corrected through performance incentives – but this may all too easily lead into unreasonable “second guessing” of local choices.

Implementation

Lessons here are principally:

- In general, this is an aspect of ISD which is very frequently underplayed and *neglected*. Policy initiatives and projects often assume

that good planning alone will lead to better ISD – which is obviously not the case;

- There is a need for *flexible procurement arrangements*, allowing for a range of options, in order to take into account the specificities of sometimes remote, rural areas (as in Nepal);
- While it is often claimed that ISD production can be fully outsourced to the private sector, this is not always so easily done in rural areas. Frequently, rural LGs face the constraint of *very weak and uncompetitive local private sectors*; and, politically, private outsourcing by LGs can be problematic, where this is associated with *corruption*: i.e. outsourcing may simply be risky, objectively, or LGs themselves may be reluctant for fear of being suspected of corruption.
- Simple *skills upgrading* and introduction of simple *tools and procedures* for more transparent and competitive procurement can greatly facilitate the use of private capacities.
- O&M remains, in many cases, a bugbear. This points to the need to ensure a *clearer distinction* up front on the sorts of facilities which can reasonably be managed and maintained at a community level. They must be looked after by LGs or line departments and, especially for maintenance, have a better articulation between *recurrent and capital expenditure*.

Accountability

Some lessons emerge on the scope for promoting LG accountability for ISD:

- The main focus of the innovations has been on enhancing *downward accountability*. Indeed the experience suggests that more open and consultative planning and budgeting procedures, allied with more systematic provision of information to citizens, can lead to improvements at a relatively low cost. But challenges remain in: (a) extending this to the very poor and other marginal and more geographically isolated communities, and extending accountability to include other areas of LG business, beyond ISD planning; (b) strengthening the feedback between individual councilors and constituents.

- Strengthening the *horizontal accountability* of local civil servants to elected LGs is problematic, except in situations such as the Ugandan districts where the former are under full control of the latter. Indeed the term “horizontal” is often a misnomer since civil servants are typically deployed to a level above that of the elected rural LGs in many cases (Cambodia illustrates one interesting approach to this).
- *Upward accountability* of local government to the centre has been encouraged through the establishment of upward reporting systems. Moreover, compliance with central policy and procedures has been encouraged through the performance-linked funding incentives. This too is an area where much more needs to be done, but where there are constraints inherent in the capacities of Ministries of Local Government or of the Interior – or equivalent central departments - as regards supervision of local government. One particularly problematic issue is the typically very weak capacity to ensure regular external audit – and audit follow up - of hundreds or even thousands of rural LGs.

Capacity-Building

Finally some lessons on this cross-cutting theme:

- Generally, the Case Studies have shown that the “*weak local capacity*” *mantra* is often exaggerated; or is based on the false presumption that poor LG performance is due simply to inadequate or poorly trained staff. The case studies show that LG performance can be greatly improved – without changes in staffing or educational background – by a combination of learning-by-doing within a more enabling framework of policies, procedures and systems.
- *Demand-driven capacity-building* (as under the Uganda LDP) can play an important role for optional or location-specific needs, but it cannot replace a supply-driven component, which provides LGs with a menu of essential CB activities.
- In devising sustainable “supply-driven” training and support mechanisms Bangladesh and Uganda have indicated the value of ‘cascade’ and ‘peer’ capacity-building through training (based

on centrally produced materials), mentoring and/or exchange of experience.

A more general lesson that can be drawn is that LGs are not and can not be “autonomous”. If they are to play their proper role in more effective ISD they require a whole tissue of inter-relations with higher levels of sub-national government, and with central government in order to ensure access to technical support and fiscal transfers, coordination of planning and budgeting, the upward transmission of “demand” for services, and the downward transmission of policy and guidelines.

Above all, LGs can only prosper with active *support and effective monitoring by central government*, and by higher levels of sub-national government. Devising these arrangements, however, is a major *organizational challenge* – given the large numbers of rural LGs typically involved and the turnover of elected representatives, and given typical civil service staffing constraints.



Introduction

This report provides a synthesis and comparative analysis of case studies of rural local governance, infrastructure and service delivery (ISD) in three Asian countries (Bangladesh, Cambodia, Nepal). A fourth case study from Uganda is included because of the inherent interest in the innovations in decentralization policy and practice which are being trialed in Africa.

Three of the case studies are focused on the experience of UNCDF-supported local governance projects, which were explicitly formulated with a view to piloting innovative local governance and infrastructure and service delivery practices in rural areas. The fourth case study, on Cambodia, describes a national initiative with similar characteristics that resulted from an earlier UNCDF supported intervention.

THE FOCUS ON RURAL LOCAL GOVERNMENT

The case studies are united in their common focus on the role of rural local governments in ISD. The reasons for this focus are several:

- In South and South-East Asia the bulk of the population is still rural, despite rapid urbanization. Moreover, it is in rural areas where most of the poor live, and where the greatest challenges for poverty reduction exist.
- There is now general recognition that local governments have a key role to play in ISD for poverty reduction: in partnership with communities, private sector, and central governments. But all too often, rural local governments in Asia are caught in a vicious circle: their typically poor ISD performance promotes local apathy, undermines legitimacy, and weakens the case for their being entrusted with resources, leading to marginalization, which in turn further weakens their performance. If rural local governments are to prove relevant, this vicious circle needs to be turned around into a virtuous circle, with support for improved ISD performance and accountability, enhancing their legitimacy, and promoting the case

for their being entrusted with adequate resources. Failure to turn around this dynamic will severely compromise the effectiveness of national poverty reduction strategies.

- Yet despite their potentially critical role, the challenges and the opportunities for improving ISD through rural local governments are not well understood or adequately documented. Most of the research and literature on local government service delivery, and on related “good practices”, are based on urban experience, where most of the policy advocacy for change is dominated by urban representatives.

One premise, which underlies the case studies synthesized in this report, is that the challenges in promoting more responsive and pro-poor ISD through local government in rural areas are qualitatively much greater than in urban areas (this issue is revisited in Part 6).

COMMON FRAMEWORK FOR INNOVATIONS UNDER STUDY

A second premise behind the case studies is that there are important local and national innovations in the policy and practice of rural ISD which are of much wider potential interest, but which are poorly documented and little known outside of the area or the country in question. Each of the four case studies documents a set of such innovations, and does so by placing them against the respective national policy frameworks for rural local government and local ISD, and the challenges which these represent.

The innovations under review all share a common framework. In all four countries, UNCDF (together with government partners) has promoted an approach known generically as the Local Development Programme (LDP). The common strategic features of the LDP approach are highlighted in Box 1.

While the design and details of each LDP differ, in reflecting the differing national contexts, they each aim to support more effective pro-poor ISD in rural areas by working through rural local governments. In each case the LDP strategy is to twin a performance-linked financing mechanism, on one hand, with measures to improve ISD procedures and systems within local government institutions, and on the other hand in order to enhance their performance (effectiveness, efficiency, account-

BOX 1: KEY FEATURES OF A LOCAL DEVELOPMENT PROGRAMME

- **Sub-national institutional focus:** improving local governance by supporting the institutional development of sub-national government and community institutions, and of their inter-relations, in a selected area, with special focus on improving systems and procedures for delivery of basic infrastructure and services and the local management of public expenditures;
- **Innovation in practice and procedures:** improved procedures and practices for local planning and budgeting, procurement, implementation, management & monitoring and – overall – to enhance the effectiveness, efficiency and accountability of local bodies;
- **Performance-linked funding facility:** a local development fund facility allowing regular, transparent and sustainable allocations to local bodies and tied to agreed measures of local performance, as incentive for local capacity building;

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

ability). This twinning of capacity building with provision of resources allows real-time learning-by-doing. At the same time, these innovations are devised with a view to broader mainstreaming and policy adoption, within national legal and regulatory frameworks for local government. The generic structure of an LDP is set out in Box 2.

Clearly, these generic LDP design features need to be tailored to reflect the specific differences in the political, socio-economic and institutional dimensions of each country context at both central and sub-national levels.

This report outlines the various LDP experiences, presenting: country contexts, the nature of the interventions, their successes and outcomes,

BOX 2: WHAT IS THE TYPICAL STRUCTURE OF AN LDP?

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

- **Support for local capacity-building** within sub-national government and community institutions: trialling, development, extension of local planning, budgeting and management systems and procedures, training, basic logistic support, etc;
- **Establishment of a local development fund facility**, allowing for the financing of investments generated by the local planning, budgeting process, through performance-related block grants;
- **Support at the national-level to capitalize on policy lessons learned**, raising awareness of policy issues, scaling-up, and supporting the development of the policy, legal and regulatory framework.

lessons learned and implications for wider replicability. The report is structured as follows:

- Part 1: Overview and profile of the four countries;
- Part 2: Description and comparison of the service delivery contexts in the four countries;
- Part 3: Discussion of pro-poor ISD innovations in the four countries;
- Part 4: Outcomes achieved;
- Part 5: and Policy Influence & Replicability; *and*
- Part 6: Lessons learned and future challenges.

The report starts with a summary of the differing country contexts as the background for consideration of the nature and outcomes of the innovations which have been introduced.

All four countries are amongst the poorest in the world. Table 1 illustrates this in relation to a range of social, health and economic indicators. In all cases, the great majority of poor people in each country live in rural areas, and in all cases the likelihood¹ of a randomly selected household being poor in the rural areas is around twice as great – or even greater – than one selected in an urban area.

This poverty is in part linked to periods of conflict and internal instability that have, or are currently affecting the countries. Cambodia and Uganda are known for sustained periods of conflict, political instability and violence. Uganda has subsequently had a long period of reconstruction, since the current political regime came to power in 1986, whilst in Cambodia reconciliation and reconstruction measures are much more recent. 1999 represented the first full year of peace.

In both Bangladesh and Nepal, conflict has also been a significant factor in their development. In Bangladesh this related to the War of Independence in 1972 whilst Nepal is currently mired in a period of Maoist-inspired instability and insurgency. Other relevant country characteristics are summarized in relation to geography, society, economy and polity (and relevant information is also shown in Table 2).

1.1 GEOGRAPHY & ECONOMY

The countries illustrate considerable and important variations in geography that affect local government and service delivery. Bangladesh has the highest population densities in the world. This, combined with its low-lying terrain and location at the confluence of three major rivers has left its people prone to frequent flooding, as well as to drought and cyclones. But concentrated settlement patterns also facilitate ISD. Cambodia in contrast is a resource-rich country in terms of forestry, minerals and fish stocks, and apart the Cardamom mountains in the south the country is a shallow and fertile basin.

TABLE 1: BASIC DEMOGRAPHIC AND SOCIO-ECONOMIC COUNTRY INFORMATION

	Bangladesh	Cambodia	Nepal	Uganda	Average LDCs
Total population	129.3 million	13.4 million	22.7 million	22.2 million	-
% of population rural (2001)	74.5	82.6	86.8	85.5	-
Land area (km ²)	147,570	181,035	147,181	197,000	-
Density (population/sq km)	876	74	154	113	-
GDP per capita (PPP US\$ 2001)	1,610	1,860	1,310	1,490	1,274
HDI ranking (2001)	0.502	0.556	0.499	0.489	0.448
Gender Development Index (2003)	0.495 (ranked 112 of 144 countries)	0.551 (ranked 105 of 144 countries)	0.479 (ranked 119 of 144 countries)	0.483 (ranked 117 of 144 countries)	
Human Poverty Index Ranking	72	73	70	60	-
Adult literacy rate (2001)	40.6	68.7	42.9	68.0	53.3
Life expectancy at birth (2001)	60.5	57.4	59.1	44.7	50.4
% total poor living in rural areas	58%	N/A	94%	87%	-
Ratio of Rural: Urban poverty headcount indices	2.78	1.90	1.91	N/A	-

Sources: Economist Intelligence Unit Country case studies (2002-03); UNDP Human Development Report (2003), IFAD Report on Rural Poverty (2002), Uganda's Recovery: the Role of Farms, Firms & Government, Reinikka and Collier (2001)

In Nepal, the mountainous environment has a significant influence on the rural economy, society and government administration. It affects accessibility and the technical requirements and costs for ISD. In Uganda, there are considerable local geographic variations in terrain and to a lesser degree in climate. This affects local service demand and delivery. For example, in Kotido District, the Karamojong people are semi-nomadic and have different needs for and access to local infrastructure and service provision.

All four countries are predominantly rural and agriculturally based. For example, in Nepal agriculture accounts for 40 per cent of GDP and provides a livelihood for 80 per cent of the population. To a greater or lesser extent all the economies have also been mired by conflict (as described earlier). For example, tourism in Nepal has been adversely affected by the recent insurgency. Moreover the countries are characterized by significant aid dependency. To some degree, all four countries are affected by corruption. Bangladesh and Uganda are listed in the 2002 Transparency International Corruption Perceptions Index as the first and eighth most corrupt countries.

1.2 SOCIETY

In terms of society, Cambodia's period of conflict and instability has had very real and direct impact. The death of so many adult males has produced a "lost generation", and has resulted in shortages of core skills, and expertise. Nepal and Bangladesh can be characterized as more rigidly hierarchical and stratified with both caste systems and patronage relationships remaining significant factors influencing the organization of rural society. This impacts the operation and structure of local government. Uganda also contains considerable ethnic and religious variations characterized by underlying social tensions. The country is ethnically and religiously diverse (as shown in Table 2). This has been a cause of division in the past (for example during the Amin and Obote regimes). This has influenced the current "no party" basis of politics. Another factor is the youth of the population in Uganda. More than 50 per cent is under 15. This impacts upon economic productivity and has resulted in considerable dependency on service provision.

As the GDI rankings in Table 1 show, women are in the most vulnerable position in all of the case study countries. They are disproportion-

TABLE 2: SUMMARY OF COUNTRY CONTEXTS

	Bangladesh	Cambodia
Poverty	Below Poverty Line (BPL) population (2000) 44.3% In absolute numbers third highest poverty levels in the world; Health (2000) Infant mortality rate (IMR) 58/1000, Life expectancy 68.2, Maternal mortality rate (MMR) 600/1000 (2003); Population growth rate 2.06% (2003 est)	BPL population (1997) 36%, Health (2001) IMR 88, MMR 590, Life expectancy 54; Population growth rate 1.8% (2003 est)
Geography	Delta region of several large rivers, low elevation and high population densities, prone to flooding, cyclones and drought; 1/3 of land flooded annually.	Smallest of three former Indochinese countries; Apart from the Cardamom Mountains in the south the country is a shallow fertile basin. Resource rich country, with forestry, minerals, fish stocks; Mekong river bisects the country running north south. Seasonal flooding.
Society	Muslim state 83% Muslim, 16% Hindu, 98% Bengali ethnic representation (small scheduled caste and tribal minority representation); Hierarchical class and caste based society; 34% of population <15 years old	90% of population Khmer origin The main other ethnic groups are Vietnamese and Chinese (500,000 and 600,000); Population 95% Buddhist Major post conflict challenges: Gender imbalance, women outnumbering men, esp in the over 40s age group (legacy of conflict) associated skills shortage; 39% of the population <15 years old; General climate of unrest, violent crime, and potential instability
Economy	Agriculture the major employer (74% of population), but it is unable to meet the demand for jobs. Many Bangladeshis seek work abroad, sometimes illegally. The country is trying to diversify its economy, with industrial development a priority.; Economic development limited by corruption and mis-management Corruption: Transparency International (2002) index 1 st ; Dependence on overseas aid falling, < 2% in 2001 from 7.6% in 1991	Agriculture the primary economic driver. Most rural households engaged in rice. Timber and rubber also important; Poor infrastructure a limitation on development; Tourism increasing pre SARS; Resource rich country, eg minerals, but exploitation on a small scale.
Polity	Republic, multiparty democracy, with 3 tier system of local government with elected representation at Union Parishad (local) levels (a 4 th village level is being introduced); Highly centralised; Deconcentrated line departments at local level have upward accountability; Political meddling and patronage for MPs operating at local level	12 yr old parliamentary democracy and constitutional monarchy; Executive generally dominates the legislature judiciary, army and police; Policy making generally highly centralized. 2001 Commune Law introduced elected local government Commune Councils.

	Nepal	Uganda
Poverty	BPL population (1997) 42% Poverty concentrated in mid and far western regions where 72% BPL. Poverty esp concentrated in minority groups and is gender biased; Health (2003 est) IMR 71, Life expectancy 59, MMR 830; Population growth rate 2.26 (2003 est).	BPL population (2003 est) 35% Health (1998) IMR 100.7, life expectancy at birth 41.8, MMR 1,100 (2003) Population growth rate 2.96 (2003 est)
Geography	Land locked country, Three major ecological zones – mountainous Himalayas; the Hills; and the Terai, a region of floodplains; Communications and access a major challenge.	Land locked country Topographic and (to a lesser extent) climatic variation (eg Karamoja arid with very low population densities)
Society	Socially and ethnically diverse. Widespread caste hierarchy system that provides a framework for a marked degree of social stratification; 86% Hindu and 8% Buddhist population. Higher caste groups (Brahmins and Chettris), along with higher caste Newari groups based in the Kathmandu valley, tend to be socially and politically dominant.; Lower caste and “untouchable groups”, & a number of ethnic minorities, are most socially disadvantaged. Women, in all social categories, tend to be the most disadvantaged people in the country; 39.7% of population <15 years old	Ethnically and religious diversity (and associated history of conflict). >18 ethnic groups. 33% Roman Catholic, 33% Protestant, 16% Muslim, 18% indigenous beliefs; Ongoing instability in the West (vs the ADF) and in the North (bordering Sudan - vs the Lord’s Resistance Army). 50.8% of population <15 years old.
Economy	Agriculture single most important sector in the economy, 40% of GDP and providing livelihood for 80% of the population. Kathmandu valley and other urbanized areas, manufacturing and service industries have developed, but remain relatively unimportant; Tourism major earner of foreign exchange, but currently in recession due to insurgency.	Rapid economic growth from very low position following 20 years of stagnation during Amin/Obote periods. Agricultural economy, with coffee tea and cotton production of significance (coffee 30-60% of total exports – depending upon prices); Corruption: Transparency International (2002) index 8 th ; Continued dependence upon external aid.
Polity	Since 1990, a constitutional monarchy, but King, as head of State, is vested with rather more than merely symbolic powers (as demonstrated by the current political situation). National level, a two-tier, multi-party, parliamentary system. 1999 Local Self Government Act (commitment to decentralization; 2002, inter-related political crises led to the dissolution of both national and local governments.	Democratic single party republic (referendum on multi-party rule held in 2000) Established 5 tier structures of local government (generally operational for more than 15 years) National commitment to decentralization formalised by 1997 Local Government Act

Sources: Economist Intelligence Unit Country case studies (2002 and 2003); CIA World Factbook (2003), UNDP Human Development Report (2003).

ately represented within the poor and girls are under-represented at primary and secondary schools. Even in Uganda where significant emphasis has been placed on promoting universal primary education and primary school enrolment rates are at 87 per cent there is a nine percent gender gap. Moreover in Nepal, Bangladesh and Uganda, where provision is made for statutory electoral representation of women in government, in practice they often remain marginal to decision-making.

1.3 Polity

The four countries show significant variations in their constitutional and political bases. Multiparty democracy is operating in three of the four countries (Uganda operates a “No party” democratic system). In both Bangladesh and Uganda, local government political and institutional structures are more deeply established, although in Bangladesh these are relatively centralized and unreformed (and there are strong interests hostile to decentralization). In contrast, Uganda has shown a strong commitment to decentralization over a prolonged period. Built upon past community structures, this was linked to governance systems (local resistance councils) that were established during the resistance period prior to President Museveni taking power.

Nepal is a constitutional monarchy with a multi-party democracy. In 1999 the country took major steps towards promoting decentralization with the approval of its Local Self Government Act which created an enabling policy framework for decentralization. However, the ongoing Maoist insurgency has stalled the reform process, and the crisis has led to suspension on local elected bodies. In Cambodia, multiparty democracy is still relatively young and remains contested. The country also differs from the others insofar as the separation of the executive, legislature and judiciary branches is weak, and government is also closely allied with the army and police. Cambodia has made recent moves towards decentralization with the 2001 Communes Act and the establishment of the communes as elected bodies in 2002.

Overall these differences in country contexts profoundly affect the nature of local governance and service delivery. This is considered, in greater detail, in Part 2.

In this section the policy and institutional contexts for basic infrastructure & service delivery (ISD) by rural local governments in the case study countries will be presented and compared. The differences highlighted have influenced the design of the Local Development Programmes (LDPs) and have affected the nature of outcomes achieved.

2.1 STATUTORY RESPONSIBILITIES AND ELECTORAL REPRESENTATION

In three of the countries (Bangladesh being the exception) major new legislation governing local government and decentralization has been recently introduced. Nonetheless, there are significant differences in the policy frameworks of each country. Moreover, there is a difference between local government responsibilities (as set out in legislation) and the role of local government in practice.

Uganda has the most strongly decentralized structure of local government with four separate tiers in rural areas. This was formalized in the 1997 Local Government Act, which provides local government with full staff hiring and management responsibilities and autonomy. There is also relative clarity relating to the roles and responsibilities of different levels of government, based on the principles of subsidiarity and ‘integration with non sub-ordination’ for different sectors. There is direct elected representation at village, sub county and district levels with indirect representation at parish and county levels (see Table 3). Service delivery is also influenced by the national Poverty Eradication Action Plan which sets out national sectoral expenditure priorities. A Local Government Finance Commission – reporting to the President – advises on fiscal decentralization policy issues.

Bangladesh, in contrast, represents an established but centralized and unreformed system of local government. Indeed there is still considerable opposition to decentralization centrally. There is elected representation in rural areas only at Union Parishad (Council) level (see Table 3). Here, one of the few recent policy innovations has been the 1997

legislative amendment which provides for three elected council seats for women, alongside the nine general elected ward seats (almost inevitably occupied by men) and the elected “Chairman” (who is indeed almost always male).

UPs have considerable responsibilities “on paper” but in practice manage little more than small scale infrastructure schemes. At district and sub-district levels, line departments are accountable to central ministries and not to local politicians. Moreover, there are no clear definitions of responsibilities or of the co-ordination between different departments and different levels of government.

In Nepal, a somewhat radical policy of decentralization has recently been introduced through the Local Self Governance Act (LSGA) of 1999 (and the associated 2000 LSG Regulations). This includes fairly strong models for fiscal devolution. In addition, a Local Bodies Fiscal Commission, and a Decentralization Implementation Work Plan are underway. The central government has been implementing individual sector devolution processes since 2002. However, this process has occurred in an ad hoc and variable manner. The extent of devolution has also varied according to the sector. There is elected representation (although currently suspended) at village and district levels (see Table 3). The statutory framework does, however, remain silent in relation to a number of issues, especially the correlations with sector devolution processes.

In Cambodia, the policy framework has been very recently established with the 2001 Commune Law. This led the way to the election of Commune Councils in 2002, with representation based on a proportional party list system, rather than on the “one member - one ward” system featured in the other three countries. This proportional mechanism does pose challenges in ensuring comprehensive voice for the interests of all geographic communities in the commune.

The communes have very broadly defined powers to handle “local affairs.” The law is, however, vague about actual responsibilities for service delivery. There is an ongoing incremental process for the development of roles and responsibilities and this is currently focusing primarily on administrative functions and on incipient financial and public expenditure management.

Table 3 provides a summary of the key characteristics of local government in each of the case study countries. It can be seen that there is

TABLE 3: LOCAL GOVERNMENT IN THE FOUR CASE STUDY COUNTRIES

	LG units	No. in country	Average size		Elected authority		Revenue authority	Functional observations
			Pop. (000s)	Area (km ²)	Type	Election method		
Bangladesh	District	64	1,900	2,250	None	N/A	Yes	Planning, coordination & oversight
	Sub-district (b)	460	250	300	None	N/A	Yes	Deconcentrated planning and implementation powers
	Union Parishad (a)	4,500	27	30	Council	UAS	Yes	Small investment & service monitoring powers. Limited staffing capacity
	Village / Gram Sarkar (b)	68,000	1.5-1.75	n.a	None	N/A	No	Newly established. Ward development committees as pilots
Cambodia	Province (b)	20	570	9,000	None	N/A	Yes	Important planning and implementation unit
	District	130	90		None	N/A	No	
	Commune (a)	1,641	7	110	Council	UAS	Yes	Newly established. Enabling legislation but limited de facto operational role at present.
	Village	13,408	0.85	n.a				
Nepal	District (a)	75	300	1900	Council & Development Comm.	UAS and nomination	Yes	Defined sector responsibilities including planning and implementation.
	Village (b)	3,913	3.5	37	Council & Development Comm.	UAS and nomination	Yes	Defined sector responsibilities including planning and implementation.
Uganda	District (a)	56	440	3,500	Council	UAS	Yes	Higher level LG Unit; important sectoral and staffing unit with wide ISD functions
	County	n.a.	n.a.	n.a.	Chair	EC	No	Administrative unit
	Sub-county (a)	856	27	320	Council	UAS	Yes	Key low level LG unit w wide ISD functions.
	Parish (b)	n.a.	n.a.	n.a.	Chair	EC	No	Admin unit - no mandated ISD functions
	Village (b)	n.a.	n.a.	n.a.	Chair	Villagers	No	Admin unit - no mandated ISD functions

(a) = principal focus of LDP activities; (b)= secondary focus of LDP activities; UAS = universal adult suffrage; EC = electoral college (usually made up of council members from lower echelon LGs)

considerable variation in the levels of local government between the countries and in their respective sizes. Moreover, there is variation in the size of average units within a single country. The table also summarizes the differences in the statutory responsibilities, autonomy and staffing of the local government and administrative units which were supported through the LDPs. These factors are all important in influencing the powers of local government.

2.2 LOCAL GOVERNMENT FINANCE

Generally rural local governments in all of the countries studied have some assigned revenue generation powers, but remain highly dependent upon transfers from higher levels of government for a significant proportion of funds. This dependency of rural local government on central transfers, it should be stressed, is in itself quite normal; what is important is the design of the transfer mechanism, and the equity, efficiency implications and incentives for local government performance and accountability which derive from this. This is an area where all LDPs discussed further below have been piloting innovations, as discussed further below in Part 3.

There are indeed significant variations between the four countries in relation to the revenue base that they are able to operate with and in their degree of discretion over decision making.

In Cambodia, the fiscal framework for the newly established communes has been heavily influenced by the LDP and operates on the basis of an untied block grant. This is described in more detail in Part 3 of this report.

In Uganda, whilst local government has powers of own revenue generation, in practice these account for less than 10 per cent of total revenues. In addition, there has been an alarming decline in local revenues in recent years, in part as a response to significant increases in central government transfers. Of the three categories of central transfers, conditional grants (which are earmarked for specific uses) are the most numerous. This form of grant limits the discretion of local government and flexibility in ISD provision. There is also an unconditional block grant transfer which allows much more local choice (and which builds on LDP innovations described below) although this is still a relatively modest share of the total. There is now a move to consolidate and streamline the conditional grants transfer system and to allow local governments more discretion at least within the sectors concerned.

In Bangladesh, local government has limited revenue-raising powers (property tax, holding tax, market fees, vehicle and trade taxes). Own source revenues have remained static for a number of years and there is a limited willingness to increase revenue generation from these sources. There is thus significant dependence upon transfers from higher levels of government for both revenue and capital funds. However, the central government “block grant” transfer system currently in place is highly problematic. Indeed, funds are not transferred directly to or managed by UPs (but managed at the sub-district level “on their behalf”); the allocation formula is at times manipulated for political reasons; funds are announced after the local budget cycle and released much later still, and amounts transferred vary arbitrarily and considerably from year to year, and are subject to political manipulation; and local use of funds is constrained by rigid centrally-imposed percentage limits. Weak monitoring encourages both the reality and the perception of UP malpractice.

In Nepal, local government has some revenue raising powers, but the local revenue base is limited and stagnant. There is a high level of dependence by DDCs and VDCs upon central government transfers (representing 75 per cent of total LG revenues). Overall, however, LG expenditures are small in scale, accounting for just four per cent of total public expenditures nationally.

In recent years, VDCs have been receiving equal flat rate block grant allocations, without regard to relative population or poverty, and with little guidance or supervision – thereby encouraging actual misuse, or the perception of misuse. Central transfers to DDCs have been mainly channelled down through sector ministries to their deconcentrated departments, with very modest and unpredictable block grants to the DDCs themselves. The fiscal decentralization policy is now to switch to “devolved” funding through a mix of conditional and unconditional grants to the DDCs themselves – but implementation is stalled because of the current suspension of local elected bodies.

2.3 PLANNING AND BUDGETING APPROACHES

The case study countries exhibit considerable variation in the sophistication and transparency of local planning processes. These are most developed in Uganda where LG is required to prepare three-year development plans incorporating the development plans of lower level councils.

Planning and budgeting are highly participatory in Uganda and “bottom-up,” involving a range of diverse stakeholders – this itself is largely a result of the mainstreaming of earlier LDP innovations discussed in greater detail below. The process in Uganda is driven by technical considerations as well as political aspirations reinforced by technical guidance. In addition, the staff lack capacity to technically appraise projects which present competing resource needs. In Cambodia, owing to the LDP influence, a comprehensive planning process has been provided for in the legal framework, to work in parallel with the Commune/Sangkat Fund (CSF). This is described in more detail in Part 3. In Nepal planning processes have been set out in the new Local Self Government Act (1999) and have been heavily influenced by donor supported local planning processes. These latter have generally promoted a community-based approach that has tended so far to bypass DDCs, VDCs and their constituent wards and has placed considerable emphasis upon the social mobilization aspects of planning. This “parallel” approach is now recognized to be problematic.

The local planning process in Bangladesh is undertaken in a closed and non-participatory manner with very limited wider formal consultation. Union Parishad plans and budgets are generally assembled by the UP Chairman, Secretary and one or two other elected members, with often influential “advice” from sub-district engineers. There is generally no wider participation and priorities are established with little idea of financial resources likely to be available, since the central transfer allocations are untransparent, and only announced later in the year. Rules are such that the UP is often obliged to spend time preparing an initial fictitious budget, and then revise it some months later, once the actual revenues are known. The approval of Union Parishad budgets is undertaken by sub-district authorities. There are rigid guidelines governing the selection of schemes, with limits on sectoral allocations, further discouraging any local consultation in the budget process. In addition, schemes of more than US\$850 must be undertaken by commercial contractors. LG can undertake no more than eight schemes of less than this amount using community contracting. Overall, UPs are allowed very little discretion and are subject to considerable micro-management by the sub-district.

2.4 STAFFING & STAFF ACCESS

Generally, most rural LGs struggle to attract and retain qualified staff for

supervision and monitoring of ISD works. But the levels of staffing and of local government access to, and control of, technical line department staff, are highly variable between the case study countries.

In Uganda, there is a substantial complement of the technical sector staff at district level, who are under full control of and accountable to elected district government. This greater local accountability has also facilitated, if not fully resolved, their accessibility to the lower, sub-county level. This system is challenging and can cause problems both for civil servants (often reporting to councillors without education, and who can make unrealistic demands based on a lack of comprehension of key issues) and for elected representatives (unsure how to approach and to hold trained technical personnel accountable to them). There are also as yet unresolved reporting conflicts with the parent ministries of line staff.

By contrast, in the other three countries, the technical sector staff is deployed in deconcentrated fashion, and is not formally accountable to elected local government.

In Bangladesh, staffing and skills generally rest within line departments at the sub-district level, and have no accountability to Union Parishads. The staffing numbers within the Union Parishad themselves are generally very limited (amounting to a UP Secretary, watchman and village policemen). Infrastructure planning, design, implementation and maintenance are often undertaken in liaison with the Local Government Engineering Department at the sub-district level, although the availability of the latter is often problematic. This limits the autonomy of the Union Parishads. Mechanisms for Co-ordination between different sectoral agencies are also weakly developed.

In Cambodia, commune-level administrations remain embryonic with limited staffing (generally limited to one secretary) and limited capacity for ISD implementation. As a stop gap, provincial technical teams are supporting the monitoring and implementation of service delivery. This concept of technical back stopping from a higher level of government is also being utilized in Uganda in relation to core sectors (education, health, roads and water).

In Nepal, the current difficulties associated with the Maoist insurgency have had a considerable and negative impact upon local capacity to deliver services. From 2002 onwards village and district councils

were suspended and political representatives have been replaced with civil servants. In addition, VDC officials have moved to the district HQ and are now operating at arms length. Staff capacity remains a challenge due to the apparent high mobility of senior DDC staff, as well as to the unpopularity of more remote postings.

In general, lower levels of local government in all countries need to call upon higher levels of government for some degree of support and technical backstopping – but the challenges vary. As noted above, this poses problems of access to technical services by local governments which often frustrates effective ISD.

2.5 COORDINATION, SUPPORT AND OVERSIGHT

There are always challenges to coordinating ISD between levels of local government or administration.

Firstly, there are challenges of coordination *within* sectors, ensuring that the staff management and capital and recurrent budget allocation responsibilities are properly coordinated between levels. This tends to be especially problematic in primary health or education where issues of “vertical integration” are much more important (i.e. where construction of new clinics has to be coordinated with the recruitment and deployment of health personnel, with drug supplies, with upward referral arrangements, etc.). These problems are worse where the respective roles of the two levels are unclear, and also where there are no opportunities for consultation or communication between officials in the planning and management process.

Secondly, there are challenges of *inter-sectoral* coordination, where there is no strong horizontal integrating authority such as an elected council – as is the case for the higher level of local administration in all three Asian countries. This problem has become particularly apparent in rural Bangladesh, where there is memory of the former elected bodies at Upazila (or sub-district) level, which were abolished in 1991, and which used to play an important integrating role (the administrative committees which have replaced the councils do not have the political weight to play such an integrating role).

Support and oversight by higher levels of government are also important to ensure uniform and effective service delivery by the lower level, and to allow a response to the needs of local government.

In Cambodia, support is provided through a Provincial Office of Local Administration (although the staffing and scope of these offices is quite limited). The role and purpose of this agency requires further development. In addition, there is a donor-supported Provincial Rural Development Committee chaired by the Provincial Governor that includes representation from several administrative departments. Within the provincial administration, dedicated “District Facilitation Teams” (DFT) and Technical Support Staff (TSS) provide essential planning and implementation support services to the emerging commune authorities. In addition, the District Integration Workshop as detailed in section 2.3 represents an innovative mechanism for co-ordination of the commune-level and provincial-level planning processes

In Bangladesh, the Union Parishad level of local government has little discretion in the decision-making process and is strongly controlled by a co-ordination committee operating at the sub-district level and by line departments such as the Local Government Engineering Department. The Committee should also promote co-ordination but, as noted, the lack of elected government at this level and the strength of line departments reduces the scope for this. Departmental accountabilities remain primarily focused upwards rather than horizontally. The central Local Government Division – in charge of supervising local government – has only one relatively junior official at district level, who has to cover typically 50-80 LGs.

In Uganda, the Ministry of Local Government has the primary co-ordination and advocacy role for local government. Line ministries ensure implementation of national policies and adherence to national standards, inspecting, monitoring, providing support supervision, and training. In relation to core departments technical support is provided to local government through technical support units. Nonetheless, local government decisions are largely made independently of *ex ante* oversight.

In Nepal, the oversight and auditing role of higher levels of government is weak. There is sometimes provision for audits of the VDCs by DDCs, even though this is not generally occurring in practice. DDCs are playing a weak backstopping and mentoring role, which is likely to be due to a lack of qualified staff, inadequate budgets, and insufficient resources, as well as weakly anchored procedures. There is also provision in the 1999 Local Self-Governance Act (LSGA) for District and Village

Monitoring and Supervision Committees. This has not yet been generally implemented. Other challenges are the lack of co-ordination of sector agencies for oversight together with a lack of resources for the DDC. Moreover, whilst national auditing is occurring, monitoring by Central government remains weak.

2.6 SIMPLIFIED 'LOCAL GOVERNMENT MODELS'

Based on the above it is possible to present schematic summaries of the nature of rural local government in the case study countries and the extent of decentralization. These reveal similarities and important differences in both the institutional framework of rural local government and local administration, and also in the extent of the political drive to empower rural local governments and entrust them with resources.

Cambodia represents a country with an embryonic decentralization policy framework. The only elected local government for now is the commune, a very small ISD unit in rural areas; most sector line department staff are deployed at the higher, deconcentrated province and district levels. Whilst the legislative framework is both supportive and enabling for the development of the communes as an important service delivery tier of government, currently this is in an initial stage. The commune councils have made a difference in improving local governance, but have to date only obtained minimal levels of financing and technical resourcing and remain quite seriously constrained as service delivery units.

Bangladesh contrasts with other countries, in that there is a well established yet centralized and unreformed local government framework. However, there is an accumulation of precedents and procedures that are not always conducive to good local governance, and which operate in the manner of a deconcentrated system with significant authority vested in line departments. These have little downward accountability and there is very limited electoral representation. Local governance and accountability mechanisms are weak. Although slightly larger than the Cambodian rural commune, the Union Parishad is also a very small ISD unit. Here too, sector line department staff is deployed at the higher, deconcentrated Upazila (sub-district) level.

Nepal has a relatively sound policy and institutional framework for decentralization (as provided in the Local Self-Government Act of 1999) with comprehensive provisions for fiscal devolution linked to the estab-

lishment of a fiscal commission. The VDC is a small ISD unit, comparable to the Cambodian commune. The DDC is a much larger ISD unit but one where – for the moment – line department staff are still deconcentrated and not formally accountable to the elected district government. This model has subsequently been deeply affected by a sharp upsurge in conflict that now affects over two thirds of all Village Development Committees preventing the effective functioning of local government. Currently elected bodies are suspended, since the electoral mandates expired in 2002 and central government does not feel ready to hold local elections, given the Maoist insurgency in much of the country.

In Uganda, a more radical approach to decentralization has established significant autonomy for local government bodies. In rural areas, there are two levels of local government: the sub-county, comparable in size to the Bangladesh Union Parishad, and the district, where technical line departments are deployed under full council control, and which constitutes a substantially large ISD unit. The system has been established and developed over an extended period and was formalized in statute in 1997. There is a clear commitment to decentralization from the president and the widespread acceptance within the society as a whole of local government institutions.

Although presenting a simplified picture, these different models have affected the nature of the LDP innovations in terms of both design and implementation. This is described in Part 3.

The preceding sections of this paper have looked at some of the challenges specific to rural (as contrasted to urban) local governments, as well as some of the similarities and differences in the patterns of constraints to and opportunities for local government delivery of public goods and services that emerge from the four case studies. These challenges, constraints and opportunities have ramifications at a variety of stages in the process of local government service delivery (planning, financing, implementation, etc.). This section of the paper looks at some of the more innovative ways that the UNCDF-supported Local Development Programmes in the four case study countries have tried to face the fundamental challenge of improving rural LG service delivery, deal with particular constraints, and benefit from specific opportunities.

3.1 LOCAL DEVELOPMENT PROGRAMMES

The innovations under review were all introduced through the vehicle of the general Local Development Programme (LDP) model (as set out in the Introduction to this report). They do, however, present considerable variation in terms of the scale of operations, the relative importance given to different components, and even the date when implementation commenced. Some of these dimensions are reflected on Tables 4 and 5.

In Uganda, the LDP (the District Development Project) has been especially successful. It aimed to “test” major reforms in national policy (the Constitution of 1995 and the Local Government Act of 1997), on the basis of express request from Government and in partnership with the World Bank. A separate component of the LDP was also trialed in Kotido District which faces unique issues of local government and service delivery related to the pastoralist and semi-nomadic population. The overall project has influenced national policy through a range of means as shown in the table. In addition, there has been a clear focus on monitoring and evaluating interventions as well as on documenting the new systems and procedures to help replication.

In Cambodia, the LDP started in 1996, with support to the Cambodia Rehabilitation and Reintegration Programme (CARERE), a decentral-

TABLE 4: LDPs IN CASE STUDY COUNTRIES

	Bangladesh	Cambodia	Nepal	Uganda
Period	2000 -05	1996-2001	2001-05	1997-2002
Total Planned Investment	\$ 7.0 million	US\$ 25.0 million (US\$4.0 million from UNCDF core resources)	\$5 million for 8 districts \$10million since 2003 for 20 districts	US\$14.5 million
Coverage	Target 1 District (81 UPs approx 2.2 million), Interest in national replication.	Initial coverage 2 then 5 Provinces; innovations now adopted nationally	20 Districts, approx 600,000 popn	Initial coverage 5 districts (approx 2.2 million); innovations now adopted nationally
Investment per capita p.a.	\$0.50	\$ 0.90	\$0.30	\$ 1.5
National Policy component	National Project Director in Ministry TA in Ministry of Local Government Policy papers and national workshops, International exchanges	TA to central government for: - development of legislative framework (1999) - design of national fiscal decentralization strategy (2000). - drafting CSF and Commune Planning decrees/ regulations (2001).	NPD in Ministry of Local Development Support to Local Bodies Fiscal Commission Policy research International exchanges	Policy Briefing series, Harmonised Planning Guidelines Commissioning of studies on planning, financial management, tendering, appraisal of productive investments, gender mainstreaming, and communication strategy

ized emergency assistance programme, which was re-designed as “a policy experiment in decentralized financing and planning of local development”. The key concept behind such re-design, was to support the Commune Development Committees (CDC) which were being set up by the Ministry of Rural Development in the western provinces of Cambodia, treating them however, not as functional tools for implementation of the MRD programmes, but as “forerunners” of genuine commune-level local governments. This strategy was able to demonstrate the benefits of both the LDP model and the value of the capacity building

of commune-level institutions. It resulted in the creation of the national programme described in this report.

The LDP in Bangladesh is the most recent of the four country programmes. The programme has included a focus on influencing national policy formulation through the National Project Director who is Director General of the Monitoring and Evaluation Wing, of the Local Government Division in the Ministry of Local Government, Rural Development, and Cooperatives. In addition, a range of technical assistance has been provided at the national level, including the preparation of briefing papers and holding workshops. The success of these innovations has now led to Government interest in their nation-wide replication.

The Decentralized Financing and Development Programme (DFDP) programme in Nepal began in eight districts and has now been expanded to 20 districts (with DFID support). The project has utilized a parallel UNDP supported project, and its local staff, for the participatory planning component. In addition, there have been inputs to national policy formulation, including technical assistance to the Local Bodies Fiscal Commission. The programme has been very badly affected by the sharp upsurge in conflict that now affects over two thirds of all Village Development Committees preventing the effective functioning of almost all components of the project. The conflict has now escalated to affect 50 districts categorized as Phase 3 Insecure, as compared to just 15 districts that are comparatively safer and categorized as Phase 1. This has had a fundamental impact on the project over the last 18 months, rendering much of the support inoperable.

It is useful to compare and contrast the four programmes in relation to finance, planning and budgeting, implementation and capacity-building and accountability. This is undertaken in the following pages.

3.2 FINANCING INNOVATIONS

LDP Local Government Finance innovations are summarized on Table 6 and have included the following:

Unconditional Block Grant funding to local governments

In all four countries studied, the aim has been to allocate block grants directly to local governments for local discretionary use within agreed areas of expenditure. There are several reasons behind this approach:

- It provides resources directly to local governments (who often do not receive them at all, and have to “apply” for them at the higher level, or have little choice in their use) to enable them to plan and undertake local development activities of their choice. This, in turn, is instrumental in promoting a more participatory planning and budgeting process. Experience has shown that there is little incentive to participate if there are no resources, whose allocation may be changed as a result of this participation.
- By linking the timing of the annual block grant allocation to the local planning and budgeting cycle (a link which is too often absent) local planning/budget priorities can be made on an informed basis, according to the “hard budget” constraint that this block grant (plus other local revenues) represents. This is key to promoting serious local planning and moving away from wish list planning of ISD.
- The formula basis also offers some measure of predictability from year to year allowing the local government to plan with some certainty beyond the annual horizon.
- Local governments are allowed discretion over expenditures. The extent of local government decision-making freedom varies between the case study countries. An indicative menu is developed, based on the legal mandate of the local government and other considerations.

A further related innovation is the setup of a funding “cascade” whereby higher local governments pass on shares of their grant to the lower levels, to reflect and reinforce the differing functional responsibilities of different levels of local government. In Uganda, the district must pass on 65 per cent of its block grant to the sub-counties. In Nepal, 60 per cent of the district fund allocation is required to be used for VDC-level projects identified at village-level, whereas 40 per cent is available for so-called DDC projects which may be identified by the DDC and which usually meet a more strategic need benefiting more than one VDC.

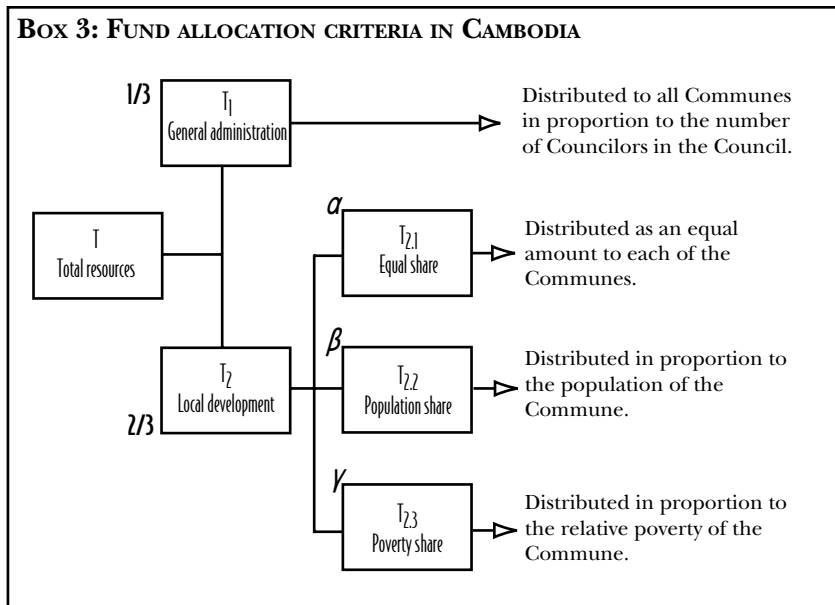
By contrast, although apparently attractive, it has proved problematic to extend this “cascade” by providing “mini-block grants” down to village level.

Equity and Transparency

There are further advantages to the formula-based block grant approach:

- **Equity:** It allows a weighting in fund allocation to provide a degree of fiscal equalization between richer and poorer LG areas. For this reason, the LDPs have been supporting the use of allocation criteria that serve this purpose. This often includes weightings related to population, land area, backwardness or poverty (the different approaches used are summarized in Table 6). Box 3 shows how this works in relation to the Commune/Sangkat Fund in Cambodia. The Local Development Fund component is allocated in three tranches on the basis of an equal share, a population share and a poverty share. In Nepal, the LDP is in the process of introducing a formula based allocation mechanism based on population size, poverty, surface area and relative cost.
- **Transparency:** More fundamentally, a pre-announced formula allocation system provides transparency and undercuts scope for favouritism or patronage (or, equally important, suspicions of this) in fund allocations to Local Governments.

BOX 3: FUND ALLOCATION CRITERIA IN CAMBODIA



Performance-linked funding

A key LDP innovation in the funding mechanism is its linkage to LG performance. The rationale of this approach is to ensure that, beyond the typical fiscal devolution and fiscal equalization objectives, fiscal transfers can also provide incentives to improve local performance not only on the revenue side (fiscal effort), but also on the expenditure side (improved public expenditure management), and indeed on other broader areas of local administration. Critical to the implementation of this approach is the strengthening of the capacity of higher levels of government to undertake performance audits and play an enabling and mentoring role for local government.

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

- Establishing minimum conditions of access to block grants, which aim to promote compliance with basic statutory and regulatory prescriptions for LG administration. They are designed to ensure minimum conditions for sound public expenditure management and good governance are in place at the start of each funding cycle.
- Establishing performance measures to adjust the basic block grant allocation upward (or downward) to encourage LGs to comply with broader pro-poor and governance policy guidelines of the sort which are not written into statute or regulation. These are designed to reward past policy-compliant performance (or penalize for deviation from it).

Table 5 provides an illustration of performance-linked funding indicators as applied to lower level local governments in Uganda.

The combination of MCs and PMs has provided local governments with very real incentives for complying with statutory prescriptions and for improving their performance as providers of public goods and services – in short, for providing good local governance. As the experiences in Uganda and Bangladesh have shown (see Part 4), the use of MCs and PMs has resulted in general improvements in LG management, largely as a result of citizens putting pressure on elected officials (to oversee performance) and elected officials exerting pressure on LG staff (to produce satisfactory results).

TABLE 5 : PERFORMANCE-LINKED LOCAL GOVERNMENT FUNDING IN UGANDA: AN ILLUSTRATION OF PERFORMANCE INDICATORS

Minimum Conditions of Access	
Planning Capacity	3 year rolling plan approved by LG council Planning committee functional
Financial Accountability	Draft final accounts from previous FY Internal audit function in place
Performance Measures	
Quality of the Investment Plan	Quality of poverty & problem analyses Quality of environmental analyses Capture of investment & recurrent cost links Identification of development partners
Staff Capacity and Performance	Integrated staff work planning Staff reporting on investment performance Evidence that staff supporting village schemes
Communication & Accountability Performance	Posting of IPFs, approved projects, etc, on LG boards and other public places Evidence that LG has communicated budgets and workplans of current FY schemes to concerned areas Evidence that LG has reported on use of community contributions in previous FY
Fund Allocation Performance	Consistency between LG decisions and actual allocations thro' FY Share of LDG on agreed poverty priority areas (health, education, water & sanitation, agriculture, roads) Full utilization of LDG
Procurement Performance	Compliance with procurement thresholds Proper certification of payments in previous FY Contracting-out of min share of LDG
Local Revenue Performance	% revenue collected vs planned % increased revenue collected in last FY over FY-2
Gender Mainstreaming Performance	Inv Plan reflects sound gender analysis & strategies Budget reflects allocations to match strategies Gender training planned and undertaken in last FY
Council, Executive & Committee Performance	Regular, attended & minuted meetings of Council, Executive and Finance Committee

TABLE 6: LDP FINANCE INNOVATIONS

Finance	Case Study Countries	
	Bangladesh	Cambodia
Block grant	<p>Predictable, regular block grants, synchronised with LG budget process, allowing local flexibility (in contrast to Government Annual Development Plan (ADP) Grant).</p> <p>Decision making devolved to Union Parishads (indicative list of options).</p>	<p>Regular, predictable Commune/ Sangkat Fund block grant mechanism working nationally with broad menu of permissible recurrent and capital expenditure options.</p> <p>CSF has two components:</p> <ul style="list-style-type: none"> i General Administration Component (<1/3 of total) & ii A Local Development Component
Allocation formula	Allocation formula based on population, and land area)	<p>Component i: allocated in proportion to number of councillors.</p> <p>Component ii: allocated in three parts with population and poverty weightages</p>
Matching funding	<p>No formal requirement. Occurring in practice (threshold levels of tax collection as condition for support).</p>	Requirement for matching funds (minimum 10%). Cash contribution not less than 3%.
Performance basis	<p>Minimum criteria for entry into programme, reviewed annually (accounts in order, committees in place, minimum levels tax collection, etc).</p> <p>Performance based annual increments</p>	Access to funds dependent on compliance with “process” requirements (initially limited to adoption of improved Local Planning / budgeting /Accounting procedures)
Revenue enhancement	Local revenue enhancement initiatives	Ongoing support to development of own-source revenue instruments (« betterment levies” and “Commune services levy”)
Dedicated funding windows	Separate funding window for projects proposed by women (1/3 of total UP allocation)	

TABLE 6, CONTINUED.

Finance	Case Study Countries	
	Nepal	Uganda
Block grant	Regular, predictable and dependable fixed annual grants to DDCs and VDCs, the use of which is largely left to LG discretion (indicative list of options); 40% to DDC projects and 60% to VDC projects; Fund flow through regular HMGN channels; Ex ante controls over LG use of grants;	Local Development Fund and Capacity Building Fund; Cascading development grants at different levels of government, 35% allocation to district and 65% to lower levels of local government.
Allocation formula	Equal share allocations to DDCs 2003-04 a multi-criteria formula system (20% population size, 50% poverty, 20% costs, 10% area);	Formula driven resource allocation, based on child mortality rate, school-age going population, population, & land area (each with a different weightage); Lower level allocations on population and areas
Matching funding	Matching contributions from DDCs (10% to all projects), VDCs (10% in cash to VDC projects), and local communities (unspecified);	Matching contributions from LG and communities
Performance basis	2003/04 Introduction of interim minimum conditions. Performance based increments to be piloted in 2004/5	Well developed system of Minimum conditions for accessing funds, performance based annual increments, and independent assessments.
Revenue enhancement		Local revenue enhancement initiatives
Dedicated funding windows	20% earmarked window for focussed projects, targeting women & disadvantaged groups (dalits);	

There is one further feature of the performance-linked funding that needs underlining – their use encourages a move away from the prevalent *ex ante* controls over LG decisions and activities, and towards a system of *ex-post* controls. In the case of Uganda, no agency external to LGs (other than those prescribed by law) provides any *a priori* oversight over local government planning or budgeting decisions. LG activities are evaluated after they have been implemented – and this is in marked contrast both to some national funding mechanisms and to very many donor-funded programmes.

Local matching contributions

Matching contributions are required in Uganda, Cambodia, and Nepal (as shown in Table 6). These contributions are expected from both local government units as well as from local beneficiary communities. In Nepal the District Development Committees are expected to contribute 10 per cent of costs to any type of project whether it is DDC or VDC level, whilst VDCs are also expected to contribute 10 per cent towards the cost of VDC level schemes. Local communities or user groups make an unspecified contribution (either in cash or in kind) towards the financing of any scheme.

Poverty targeted funding windows

A final LDP financing innovation is the use of specific funding windows, for schemes targeting women, disadvantaged groups, etc. This is intended to ensure that funding focuses on the poorest. The approach has been used in Bangladesh (where one third of all projects must be for proposals made by women), and in Nepal (where 20 per cent of project funds are for women or disadvantaged groups).

3.3 LDP PLANNING AND BUDGETING INNOVATIONS

Linking Planning to Local Government Budgeting

The primary innovation relates to the integration of community based participatory planning institutions and processes, within the statutory budgeting process of local government (in contrast to so many “participatory planning” experiments conducted by donor agencies with community groups outside of the local government budgeting framework).

Whilst the principles of such processes are widely understood internationally, the challenge has been to contextualize the approaches so that

they ‘fit’ local conditions, especially “rural” conditions, and to change attitudes towards participation.

Devising “Institutional Innovations” for Planning

Better planning is not just about planning tools and techniques. It has also been necessary to devise various sorts of institutional innovation to ensure adequate consultation and coordination in the local planning/budgeting process.

The development of village or ward-level organizational structures to facilitate planning processes has been required, to serve as interface between citizens and their local government. Where possible, this has been undertaken through building upon existing community structures.

- In Bangladesh, there is no formal institution below the Union Parishad, thereby necessitating the creation of Ward Development Committees as a forum for organizing community involvement in the planning and monitoring of ISD. The organic link with local government is provided by assigning the chairing of these committees to the elected Ward UP member, and an advisory role to the elected UP women member for that area.
- In Cambodia, because of the proportional representation system, it was necessary to compensate for the uneven geographic representation generated by the party list system by instituting commune planning and budget committees with wider Village representation (and a minimum of 50 per cent women), and tasked with advising the council. The Union Development Committees in Bangladesh and the sub-county Investment Planning Committees in Uganda play a similar role.

Sector coordination between levels within the planning process is another important institutional challenge. In Cambodia, for example, an attempt has been made to integrate the provincial and commune planning process (no longer hierarchically structured as an effect of newly introduced local autonomy) through multi-level, multi-actor, “contractual” negotiations in “District Integration Workshops”.

The planning steps

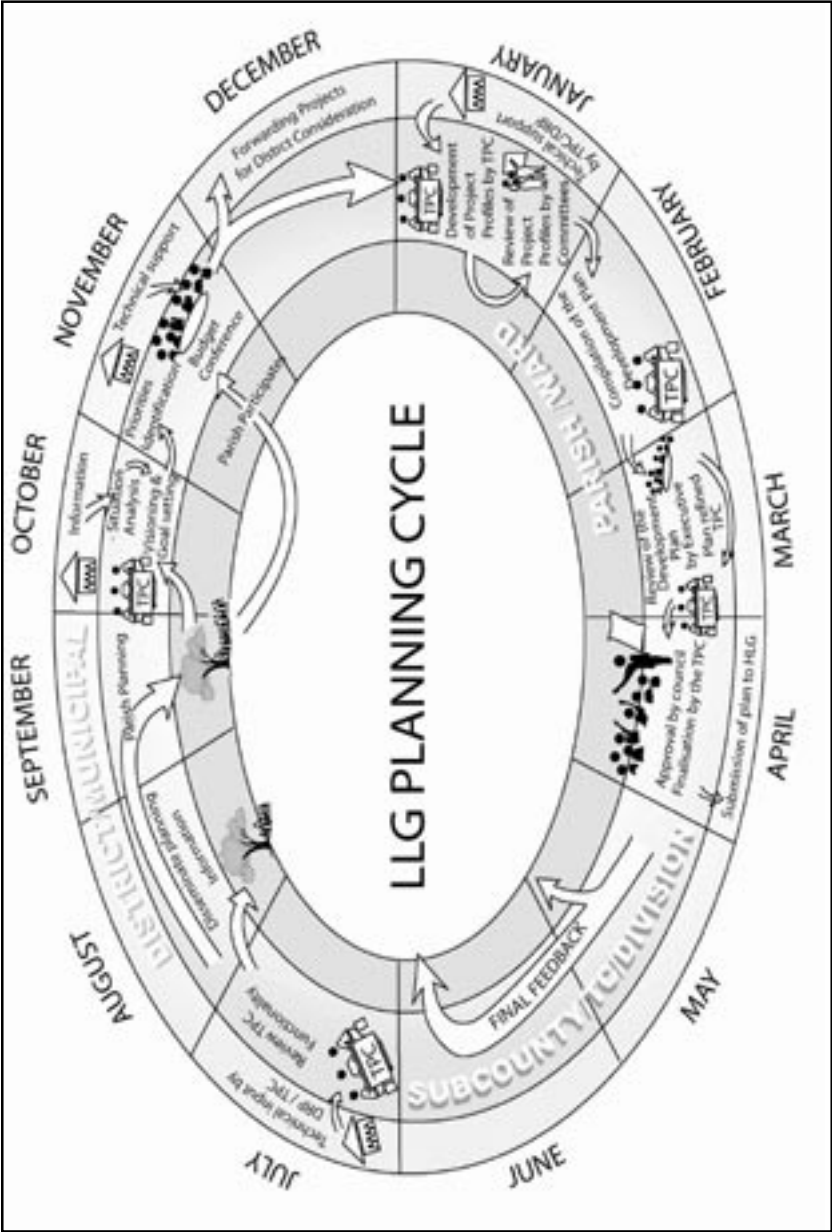
In all four cases, the LDP planning process includes the following generic steps (illustrated for Uganda and Cambodia) on the following pages:

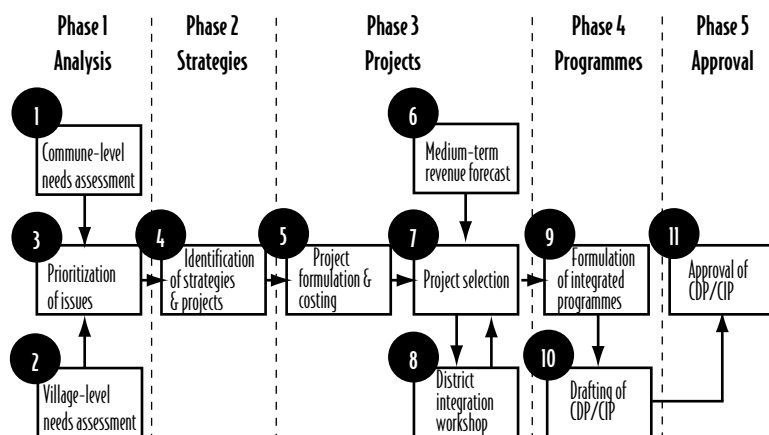
- **Strategic Guidance:** Ideally this represents an objective situation analysis and needs assessment by local government, using poverty data where available and derived from more strategic planning considerations, to provide guidance to the annual process. (This step is not fully developed in all LDPs, and can be problematic if associated with excessive top-down influence.)
- **Problem, Needs & Project Identification:** This is undertaken using simple participatory methods (although the full PRA menu is often not advocated).
- **Prioritization of proposals:** At this level LDPs have developed tools that allow costing, preliminary design and screening of projects in technical terms, as well as for environmental and poverty impact. Mechanisms for building sector co-ordination are also developed.
- **Integration into Plan and Budgets, & Approval:** This is done by the appropriate level of local government.

TABLE 7: UGANDA: LOCAL GOVERNMENT PLANNING STEPS

Timing	Steps
July	Review Technical Planning Committee (TPC) Functionality
August	Dissemination of Planning Information for Parishes/Wards
September	Support to Village/Parish Level Planning
October	Situation Analysis at Lower Local Government (LLG) level Discussion and Prioritization of LLG Challenges/Obstacles and Opportunities (LLG SWOT analysis) LLG Visioning and Goal Setting
November	Identification of LLG investment priorities Budget Conference
December	Forwarding projects for district/municipal consideration
January	Development of the project profiles
Jan/Feb	Review of project profiles by Standing Committees
February	Compilation of the draft Comprehensive Development Plan
March	Review of the Draft Comprehensive Plan by the Executive Refinement of the Draft Comprehensive Plan by the TPC
April	Discussion and approval of the Comprehensive Plan by the Council Finalization of the Comprehensive Development Plan Submit the Approved Comprehensive Development Plan to the Higher Local Government
May/June	Final feedback to the Lower Local Councils (parish/wards and villages/cells).

FIGURE 1: UGANDA: LOCAL GOVERNMENT PLANNING CYCLE



BOX 4: CAMBODIA –THE COMMUNE DEVELOPMENT PLANNING PROCESS

In February 2002, the government issued a planning regulation to guide the communes in preparing their development plan in a participatory manner. The Planning Process is articulated in five phases as illustrated in the above diagram. Schematically:

Phase 1 is concerned with the identification of service needs and development problems that affect individual villages and the commune as a whole and eventually with the prioritization of critical issues that the Council wants to address during its mandate.

Phase 2 is concerned with generating a vision for the commune development, transforming the selected critical problems/issues into goals and objectives and identifying the strategies and projects to address them.

Phase 3 is concerned with the preliminary formulation and costing of the identified projects, their ranking and final selection, in light of the opportunity for financing that is offered to the Council by existing State, donors and NGO programmes, as well as by the Council's revenue, be it from own sources or CSF and other intergovernmental transfers.

Phase 4 is concerned with the integration of the selected projects and other routine activities of the local administration into sector or cross-sector programs of action that translate into concrete activities the local government's vision for development of its jurisdiction. It results in the actual production of a draft Commune Development Plan (CDP) and Commune Investment Programme (CIP)

Phase 5 is concerned with obtaining and integrating into the draft CDP/CIP comments and suggestions from both the local people and the provincial administration. It results in the approval by the Council of the CDP/CIP .

Both the Ugandan and Cambodian planning cycles are the result of several years of trialing and modification. Key to the process is the prioritization by local community groups, and (less well developed), the technical appraisal design and costing so as to ensure cost effectiveness.

In Nepal, the approach has been based on complementing an existing community group-based local planning process that has a focus on social mobilization and planning through community development committees. The technical appraisal, design and costing steps at LG level are relatively undeveloped as yet (in part a result of the current political vacuum at local level).

TABLE 8: WARD LEVEL PARTICIPATORY PLANNING ACTIVITIES IN BANGLADESH

Confidence Building 2-3 hours	Undertaken by Ward Development Committee. Process facilitated by the Union Facilitation Teams (UFTs)
Transect walk	Precursor to situation analysis. Helps to build rapport at local level.
↓ ↓	
Situational analysis 5-6 hours	Undertaken at ward level. Usually 3-4 planning sub groups (including separate women's group) Process facilitated by the UFTs.
Map drawing exercise	Assessment of local physical and social infrastructure.
Problem identification	Group discussion facilitated using PRA techniques.
Prioritization of problems	Aggregation of priority problems
↓ ↓	
Scheme identification 1 day	As above, undertaken at ward level. Usually 3-4 planning sub groups (including separate women's group) Process facilitated by the UFTs.
Scheme prioritization	Ranking exercise at sub group level. Women's priorities shown on separately coloured cards.
Scheme visit	To assess the social and technical feasibility of proposed schemes Preliminary cost estimates are made and entered on the scheme proposal form.
Final scheme selection	Undertaken by the UDC using UDC screening matrix.
Preparation of scheme proposals	Formal scheme proposal

TABLE 9: LDP PLANNING AND BUDGETING INNOVATIONS

Planning and budgeting	Case Study Countries	
	Bangladesh	Cambodia
The planning process, institutions & tools	<p>Planning approach based on an indicative planning figure or resource envelope.</p> <p>Process including problem analysis, project identification, project prioritization (including technical appraisal), & approval.</p> <p>Planning and implementation community institutions established consistent with LG legal framework (Ward Development Committees & Union Parishad Planning Committees)</p> <p>Planning guidelines developed, including prioritization and technical matrices.</p>	<p>5 yr Commune Development Plan</p> <p>Annual Commune Investment Programme</p> <p>5 phase process including: problem analysis, strategies for Commune development, preliminary project formulation and costing, integration of projects and programs , approval .</p> <p>Planning and implementation community institutions established consistent with LG legal framework (Commune Planning & Budget Committee, etc)</p> <p>Planning guidelines developed, including prioritization and technical matrices.</p> <p>Integration of provincial/ sectoral/local investments through District Integration Workshop</p>
Inclusion of women/ disadvantaged groups	<p>Facilitation Co-ordinators and Teams used to facilitate planning process, using PRA type approaches, managed by Ward Development Committees, with key role for elected Women UP members. Dedicated funding window for women. Separate male/ female meetings before plenary ward meeting.</p>	<p>PRA techniques used.</p> <p>Mandatory 50% women among village representatives in the Commune Planning and Budgeting Committee</p>
Budgeting	<p>Timely and predictable block grant fits with budget cycle and allows preparation of annual work plans.</p>	<p>Timely and predictable block grant should fit with budget cycle and allows preparation of annual work plans.</p> <p>Establishment of a planning and budgeting committee in all Communes.</p>

TABLE 9, CONTINUED.

	Case Study Countries	
Planning and budgeting	Nepal	Uganda
The planning process, institutions & tools	<p>Complementing UNDP local planning processes,</p> <p>Planning approach based on an indicative planning figure/cost,</p> <p>Focus on social mobilization,</p> <p>Community based approach using community organizations for project identification rather than local government institutions.</p> <p>Incremental development of better technical appraisal methods.</p>	<p>Planning approach based on an indicative planning figure or resource envelope.</p> <p>Introduction of participatory planning processes,</p> <p>Introduction of Indicative Planning Figure,</p> <p>Sub-county investment planning committee with wider membership</p> <p>Introduction of 'basic' and 'advanced' forms of planning matching LG capacity,</p> <p>Harmonised Planning Guidelines prepared at national level.</p>
Inclusion of women/ disadvantaged groups	PRA techniques used, dedicated funding window.	PRA techniques used.
Budgeting	Timely and predictable block grant fits with budget cycle and allows preparation of annual work plans.	Timely and predictable block grant fits with budget cycle and allows preparation of annual work plans.

Encouragement of participation, and inclusion of women and disadvantaged groups

Within the overall LDP planning framework just outlined, LDPs have been piloting procedures to promote greater community participation. Table 8 illustrates the procedures introduced in the “problem, needs and project identification step” of the planning process at Ward level in Bangladesh.

The LDP strategy has included a focus on ensuring that the needs of women and disadvantaged groups are represented in the planning process. This is partly ensured through the dedicated funding window described in the previous section. In addition participatory planning methodologies promoting greater inclusion have also been adopted and facilitators have been trained in the use of these techniques.

For example, in Bangladesh, initial experience has revealed the problems for women speaking out in mixed meetings. The process was adapted to allow separate male and female groups to elicit their respective priorities, before these are subject to review and ranking (via “anonymous” voting techniques) by the combined groups.

Planning Tools & Techniques

Finally, although the importance of technical tools has often been exaggerated in the past by planners, simple tools do have a potentially very important role to play in ensuring a transparent and consistent planning process for local ISD. LDP experience is that this “technical” aspect of planning has been overly neglected in recent years. Participatory planning approaches are all too often biased to generating proposals but provide little guidance on prioritizing them, and on the allocation of scarce funds between them.

LDPs have been trialing such tools as:

- Standard formats for community preparation and submission of project ideas;
- Standard formats or checklists for review, screening, costing and appraisal of proposals;
- Simple checklists and formats to aid in the difficult process of ranking and comparing proposals for small investments in differ-

ent sectors (where the standard cost/benefit or cost/effectiveness techniques are of little use).

While local government planning decisions are often inevitably made with an eye to “political” considerations, the use of such tools can help contain this and compel discussions about options and trade-offs, thereby enhancing accountability.

3.4 INVESTMENT IMPLEMENTATION INNOVATIONS

Scheme implementation (or “production”) refers to the actual delivery of investments identified & selected further upstream in the planning process. It is the “supply” response to the “demand” generated through participatory planning. The investment scheme implementation innovations discussed in the case studies are shown in Table 10.

Procurement procedures and practices - general

- A main element in LDP strategy has been to assign ISD implementation to the lowest feasible LG or community level, consistent with planning/budgeting functions and subsidiarity considerations.
- Wherever possible, LDPs have tried to encourage the use of existing LG procurement procedures, rather than create new ones. However, in some cases LDPs have either introduced procedures or worked to modify existing ones (e.g. in both Uganda and Bangladesh there is an effort to raise LG tender ceilings, set years ago but now unrealistic due to cost inflation).
- Linked to performance-based funding arrangements, compliance with procurement regulations has been one of the criteria used to evaluate LGs. This clearly provides incentives for LGs to respect rules and regulations.
- LDPs have also encouraged appropriate flexibility in procurement and production arrangements, thus recognizing that in many circumstances local governments are best-placed to decide upon the most suitable arrangements for implementation. Thus, a diversity of implementation options (private sector bidding, force accounts, community implementation, etc.) has been used for local government ISD.

- Such flexibility recognizes the diversity of local situations and the reality of local constraints. Contractors, for example, may be unwilling to bid on small-scale projects in remote areas or may only do so at very high cost. Conversely, community-based implementation may be inappropriate for larger projects, whilst appropriate for small-scale, low technology micro-projects in remote areas.

Private sector implementation

One strategic aim of LDPs has been to maximize the use of private sector expertise in ISD, particularly for construction work.

- In Cambodia, in order to facilitate such out-sourcing, and to reduce the transaction costs for LGs, provincial and district authorities maintain a list of registered contractors and support communes in the process of competitive bidding and contract administration. Similarly, in Uganda, district tender committees undertake procurement on behalf of sub-Counties.
- In order to increase the supply of eligible contractors (whether consulting engineers or general contractors) capable of bidding for tenders, entering into contracts and/or providing technical services to LGs, LDPs have also provided them with training. In Uganda, for example, private sector contractors have been trained by LGs (using the DDP Capacity Building facility – see below) in contract management. Whilst, from an urban perspective, all this may seem like a relatively insignificant (or even unnecessary) innovation, in remote rural areas it can and has paid off by increasing the competition for tenders and by improving managerial skills amongst a limited number of private sector service producers.

Community implementation & monitoring

For many types of schemes (small-scale, or in remote rural areas) it is more practical and efficient to use community implementation. Indeed in both Nepal and Bangladesh there is a marked political preference for this option, given the widespread perception that contracting is a corrupt transaction.

- To facilitate this, community groups (Bangladesh, Nepal, Cambodia) have received basic training in construction skills (e.g. earthwork compacting, cement mixing).
- These skills have also been useful in supporting a more informed community monitoring of private sector implementation.

Operations and maintenance (O&M)

Without adequate O&M arrangements, new infrastructure either goes unused or deteriorates far faster than it should. Consequently, it does not generate useful services. Accordingly, all four cases study LDPs have endeavoured to ensure O&M arrangements:

- In the planning process (as part of appraisal, with responsibilities and modalities clearly stated, with recurrent and operational costs being factored in, etc.). In Cambodia, the government intends to take this further by explicit earmarking to guarantee a minimum level of recurrent budget resources for this purpose.
- Through performance-linked funding measures used to assess LG performance. In Uganda, the quality of O&M arrangements has been one evaluation criterion.

As shall be seen, the success of these different efforts has been mixed.

Technical input, monitoring and oversight

- In order to facilitate access to private or government technical staff for scheme design and supervision work, all LDPs have provided for allocation of a small percentage (five to six per cent) of the block grant to cover these investment-related support costs.
- To supplement such technical input, LDPs have also promoted the establishment of “project management committees” at appropriate LG or community levels, with day-to-day responsibilities, including monitoring and overseeing implementation by contractors. Such committees (especially at lower levels) have a special interest in ensuring that any work is of adequate quality and completed on schedule. This has generally proved to be a valuable complement to the more technical (and less regular) supervision provided by specialists.

TABLE 10: LDP SCHEME IMPLEMENTATION INNOVATIONS

Implementation	Case Study Countries	
	Bangladesh	Cambodia
Management	UP staff, scheme implementation committees, with support from line depts and project staff	Commune Councils with District and Provincial support.
Commercial and Community Contractors	Community implementation commonly used. Commercial Contractors used on contracts of >US\$850	Direct contracting by Commune Councils of District or Province registered contractors. Commune council role limited to the procurement of contracted out small scale construction. Provincial technical team supports monitoring and implementation of works.
Capacity development support	Capacity development in relation to financial management, planning, procurement and contract management, and monitoring. Capacity building of UPs, and Scheme implementation committees. Line department engineers utilised to provide technical support to UPs and community implementation committees	Local capacity building in project implementation and procurement, carried out by district-based Technical Support Staff (TSS) and directed at local councils officials and village-level groups
Miscellaneous	5% of grant can be used for technical site visits, travel, documentation, notice boards, etc	

TABLE 10, CONTINUED.

	Case Study Countries	
Implementation	Nepal	Uganda
Management	User Committees/Groups, with support from VDC and DDCs.	LG staff, Project Management Committees, with support from District staff, and from mentoring depts.
Commercial and Community Contractors	Virtually no use of private contractors, especially in remoter districts (in part due to insurgency). Construction of infrastructure mainly by Users' Committees/Groups (UCs/UGs)	Contractors and community groups utilised for implementation. Significant use of local labour
Capacity development support	Capacity development in relation to financial management, planning, procurement and contract management, and monitoring. Capacity-building for UCs/UGs in record keeping and financial management; Use of up to 6% of annual grants for procuring technical assistance (available to DDCs);	Capacity development in relation to financial management, planning, procurement and contract management, and monitoring. Mandatory and Demand driven capacity building through separate fund Financial support for Sub counties to buy in expertise for design and implementation supervision. Introduction of 'Mentoring' concept (guidance for lower levels of government, and between districts) Capacity building of contractors
Miscellaneous		5% provision in LDF for monitoring Simplification of tender documents so that they can be understood by politicians

3.5 CAPACITY & ACCOUNTABILITY INNOVATIONS

These are cross-cutting areas of innovation, which underpin the effectiveness of those detailed above. LDPs have introduced a range of capacity and accountability measures as shown in Table 11.

Capacity development support

- In parallel with support for improved financing, planning and implementation, there has been the provision of basic training and capacity development support. This has focused on a core of competencies such as financial management, planning, procurement and contract management, and monitoring and evaluation. It has generally included capacity development for LG officers and councillors, and also Village, Ward or User Committees and User Groups.
- The experience in Uganda has seen more innovation in relation to capacity development. A core set of capacity building modules has introduced a demand driven approach whereby LG stakeholders can specify their capacity development requirements. In addition, there has been a move to provide capacity development for contractors and NGOs, recognizing the important role that they play in implementing ISD. Uganda also has introduced a “Mentoring concept” whereby lower levels of local government are actively “mentored” by higher levels (there is also experience of one district supporting another). This has served to improve communication between different levels of government.
- In Nepal, six per cent of the district fund allocation has been made available to DDCs as a technical assistance window, and has allowed the hiring of additional staff on either a short or longer term basis. In practice, they have undertaken the latter. In Uganda, five per cent of the fund allocation is utilized for monitoring, and in Bangladesh a similar amount is made available for site visit costs by engineers, paperwork and other administrative measures associated with scheme implementation. This last measure, whilst appearing minor, has served to improve the monitoring of local schemes.
- In order to ensure the sustainability of the planning process outlined above, an additional innovation piloted in Bangladesh cre-

ated a network of Union Facilitation Teams. UFTs are small teams of five to seven persons (include two or three women), composed of local residents who must meet certain educational standards and pass a test and receive basic training in participatory planning techniques. Their role is to provide extension support and training to Ward Development Committees and other community groups. While they are currently paid on a daily basis for a limited number of days per year from project funds, the aim is to switch to payment from the UPs' own resources (the cost is equivalent to four to five per cent of the annual block grant).

Performance Assessments/Social Audits

The development of a performance assessment in Uganda and Bangladesh is a significant accountability measure. This measures the operation of local government and includes criteria for transparency and public information. Linking this assessment to additional funding has served to incentivize improved accountability of local government

In Bangladesh and Nepal, Social Audits are undertaken. These are public meetings to review the performance of the local government. This has served to introduce both upward and downward accountability.

Communication and public information

In addition, a range of means have been used to promote better dissemination of information. This has included the use of signboards on new schemes detailing the nature, cost and timeframe of the scheme, greater public involvement in scheme identification and selection. In Nepal, project books setting out the key information in relation to schemes are publicly available. In Uganda, each LG prepares a Communication Strategy for improved transparency and accountability. Information about LDF transfers are published through radio, newspapers, and even public announcements in churches, and at public meetings. Also in Uganda, legal documents have been prepared in simplified language with illustrative cartoons so as to be more easily understood. In addition to these outward measures, the project in Uganda has included regular project monitoring and evaluation – covering both external reviews and participatory measures, such as assessments made after scheme completion.

TABLE 11: LDP CAPACITY & ACCOUNTABILITY INNOVATIONS

Accountability	Case Study Countries	
	Bangladesh	Cambodia
Capacity support	<p>Basic training to LG councillors & staff, & community bodies</p> <p>5% block grant allocation for investment preparation costs</p> <p>Union Facilitation teams of local resource persons to extend & support planning process & other procedures</p>	<p>Basic training to LG councillors & staff, & community bodies</p> <p>% grant allocation to communes for investment preparation costs & technical inputs</p>
Performance Assessments	<p>LG performance assessed at a Social Audit exercise conducted by Ministry (including a public meeting). This is linked to additional LG funding. Criteria used include public accountability measures.</p>	<p>Provincial Governor's responsibilities for commune performance monitoring and assessment have been formalized and a provincial office of local administrations has been created</p>
Communication and Public information	<p>Public meetings, Scheme notice boards, scheme assessments and participatory reviews,</p>	<p>Public meetings and publicity and transparency requirements for the commune administrative actions have been introduced</p>
Miscellaneous	<p>Support to the development of UP Standing Committees (model terms of reference),</p>	<p>New commune level of government has improved accountability through allowing demand side voice to communities, and on the supply side, greater proximity and flexibility</p>

TABLE 11, CONTINUED.

Accountability	Case Study Countries	
	Nepal	Uganda
Capacity support	<p>Basic training to LG councilors & staff, & community bodies</p> <p>6% block grant allocation for technical services to support investments</p>	<p>Basic training to LG councillors & staff, & community bodies</p> <p>Demand-driven Capacity Building Fund</p> <p>Mentoring of lower level LGs by higher level</p> <p>% grant allocation to LGs to be used for investment preparation costs and technical services</p>
Performance Assessments	<p>Social Audits (public meetings) to assess the performance of the LG (not linked to funding)</p>	<p>LG performance assessed annually by Ministry. This is linked to additional funding. Criteria include public accountability measures.</p>
Communication and Public information	<p>Public meetings, Scheme signboards, publicly open “project books” for micro-project implementation;</p>	<p>Communication strategy for improved transparency and accountability. LDF transfers published through radio, newspapers, public announcements in church, and public notice boards</p>
Miscellaneous		<p>Legal documents written in simple language with illustrative cartoons</p> <p>Thematic M&E reviews</p>

FIGURE 2: A SCHEME SIGNBOARD IN BANGLADESH SHOWING THE BUDGET AND WORK PROGRAMME



In considering the outcomes of these LDP innovations in the case study countries, it should be understood that beyond improving the ISD performance of the local government units with which the project was working, the overall objective and purpose of the pilots was to influence wider national policy formulation and to promote replication. Outcomes and lessons in this regard are considered in more detail in Part 5.

4.1 FINANCE

The outcomes of the financing innovations are summarized in Table 12.

General

In terms of direct impacts, the benefits of the financing arrangements are clear. Significant funds have been managed by local government and have been used to meet local community demand. For example, in Cambodia (in 2003) US\$ 7 million was invested in local infrastructure and service delivery in 4,700 villages in all communes nationally, benefiting some 30 per cent of the total population.

More generally, the LDP financing mechanism has resulted in greater efficiency in the development of planning and expenditure management processes. It is clear in all case studies that the essential factor behind this lies in the twinning of capacity development assistance and provision of financial resources – thereby enabling real-time learning by doing. The existence of a defined budget allocation for flexible use clearly motivates local government to take prioritization seriously, and also serves as an incentive for communities to participate in the planning process.

TABLE 12: LDP FINANCE INNOVATION OUTCOMES

Finance	Case Study Countries	
	Bangladesh	Cambodia
General	More efficient development planning and expenditure management. Reduction in diversion of funds between UPs Timely release of funds supports better works programming and implementation.	More efficient development planning and expenditure management
Investment per capita	US\$ 0.5	US\$ 0.90
Poverty targeting	1/3 of schemes meeting women's requirements through Dedicated funding window.	Poverty weighting in fund allocation better matches resources with needs In a survey of 120 very poor villagers 73% felt that they would benefit from the schemes
Matching contributions	Approx 30% value addition through informal community contributions (labour, earth for earthworks, cash)	Matching contribution requirement has resulted in additional funds being leveraged.
Corruption	LG corruption is legendary, but anecdotal evidence suggests (a) this is greatly reduced when right transparency incentives introduced and (b) is anyway much less than central government corruption.	Anecdotal evidence that corruption persists, but its overall volume may be lower than that associated with centralized public sector
Incentives for performance enhancement	Some Revenue enhancement (as high as 400% improvement over 2 years in one UP) from a very low revenue base.	Evidence of improved allocative efficiency in local-level public expenditures, brought about by improved planning and budgeting
Miscellaneous		Further capacity development of commune councils required

TABLE 12, CONTINUED.

Finance	Case Study Countries	
	Nepal	Uganda
General	More efficient development planning and expenditure management. . More timely receipt of funds	More efficient development planning and expenditure management, allowing local government more flexibility to respond to local needs. More timely receipt of funds
Investment per capita	US\$ 0.3	US\$ 1.5
Poverty targeting	Dedicated funding window directly benefiting disadvantaged groups as shown in types of schemes selected (Almost 30% of projects). The nature of schemes generated by LDPs is a priori of potential benefit to the poor.	Poverty weighting in fund allocation better matches resources with need. Fund allocations match the PEAP investment priorities.
Matching contributions	High levels of matching contribution achieved (48% of total costs) from LG and communities).	Matching contribution requirement has resulted in additional funds being leveraged.
Corruption	Anecdotal evidence of reduction in corruption especially through user committee involvement	Anecdotal evidence of reduction in corruption
Incentives for performance enhancement	Social audits bring pressure for LG improvement, Revenue mobilization (matching funds)	Limited revenue enhancement within the LDPs, now taken up by the World Bank
Miscellaneous	Parallel VDC and DDC project funding allows a better balance of the type of schemes selected.	Parallel District and Lower level project funding allows a better balance of the type of schemes selected.

The definition of clearer allocation criteria for funds between different LG administrative units ensures a better match between service provision and local need. Whilst in countries such as Bangladesh this should have been occurring as per the law, the system is prone to manipulation and political influence. In the project district the Union Parishads have benefited from a funding allocation system which now works in practice.

Per capita investment

The per capita levels of investment have varied between the different case studies from as little as US\$ 0.30 per year for Nepal to US\$ 1.5 per year in Uganda. This is significant because too high a figure results in unsustainable investment and may hit the ceiling of the absorptive capacity of local government; while too low a level of investment can create acute levels of competition for limited resources and the exclusion of an excessive number of wards/villages, which can be divisive and can undermine local acceptance of the funding mechanism and the mainstreaming of procedures. In this regard, the sizing of allocations in Uganda, Cambodia and Bangladesh appear to be about right – and commensurate with the funding levels which can be sustained and replicated. But the very low allocations in Nepal are indeed provoking excessive rationing concerns at VDC level. Where LDPs have been complemented by the mobilization of matching funding these tensions can be mitigated.

Matching funding

The requirement for matching funds in Uganda, Nepal and Cambodia has resulted in the leveraging of significant additional funds. This is most advanced in Nepal where only 52 per cent of total funds mobilized are from UNCDF (Table 13 provides a breakdown of the types of funding). Even where there is no requirement for matching funding (as in Bangladesh) the increased community involvement often results in additional community in kind contributions (such as labour, earth of roads and so on). The case study found that this equalled an extra 30 per cent. Whilst this additionality promotes extra local development there are issues relating to community contributions substituting municipal commitments (it is notable from the table that community contributions are far larger than local government commitments and that parallel revenue enhancement has not been fully achieved). There is also a danger that

TABLE 13: NEPAL LDP AND MATCHING CONTRIBUTIONS (2001-2002) FOR ISD (000s NEPALI RUPEES)

Year	Micro-project cost sharing					Total
	LDP	DDC	VDC	Other	Community (in kind)	
2001	15,060,756	1,551,681	2,167,859	173,485	11,099,968	30,053,749
2002	36,168,201	3,797,766	3,366,266	1,110,405	24,087,465	68,530,103
Total	51,228,957	5,349,427	5,534,125	1,283,890	35,187,433	98,583,852
% of total	52.0	5.4	5.6	1.4	35.6	100.0

excessive community contributions can place an exploitative burden on the poor, a burden that better off groups are expected to bear.

Corruption

All the case studies have provided evidence (albeit primarily anecdotal) of reductions in levels of corruption. In Bangladesh, interviews consistently suggested a 40 per cent wastage on ISD implementation including both corruption and reduced quality of work. A small sample suggested that this was reduced to about 25 per cent under LDP arrangements. This is partly a result of greater awareness of local communities and participation in scheme activities (and in some cases is associated with greater use of community contracting). It is also likely to be a function of the development of effective LDP project monitoring systems. After the completion of LDPs, institutionalizing a more accountable and transparent system remains a major challenge.

Incentives for Performance Enhancement

The incentive basis for funding has also served to stimulate competition between LG administrations and has also resulted in improvements in LG performance (albeit generally starting from a low base). This includes core functions such as the regular maintenance of accounts, tax collection, maintenance of core registers and more. The Bangladesh case below illustrates quite clear positive trends (noting that there was very little direct support or training for these functions, and that improvements are almost entirely due to the incentive element).

TABLE 14: BANGLADESH: PERFORMANCE TRENDS FOR SELECTED UNION PARISHADS

Performance assessment results	2000-01	2001-02	2002-03
3 yr participants ²			
Average overall score (out of 100 marks)	66.7	78.0	85.1
Average Tax status score (out of 20 marks)	5.4	5.6	12.7
Office Management (out of 20 marks)	10.6	13.3	18.0
1st yr participants, suspended and re-admitted ³			
Average overall score (out of 100 marks)	57.2	66.5	76.5
Average Tax status score (out of 20 marks)	1.3	0.5	8.0
Office Management (out of 20 marks)	9.3	11.7	18.3
1st yr participants, suspended ⁴			
Average overall score (out of 100 marks)	63.0	71.0	57.0
Average Tax status score (out of 20 marks)	0.0	3.0	6.5
Office Management (out of 20 marks)	11.0	13.5	15.5

Performance in relation to local government revenue collection has been mixed. In Bangladesh, there has been significant improvement in tax collection rates in most Union Parishads (in one case a 400 per cent increase was achieved over a two year period, albeit from a very low collection level). In Uganda, however, collection rates actually stagnated during the period of the project. This was partly due to increases in fiscal transfers from central government which served to disincentivize additional local tax collection, partly due to overt encouragement to tax-payment laxity by central political figures in pre-election periods.

4.2 PLANNING AND BUDGETING

The outcomes of LDP innovations are summarized in Table 15.

The extent and nature of participation

Overall LDP planning innovations have promoted greater community involvement in the planning of local ISD, which, in turn, have resulted in more appropriate selection of schemes and a greater willingness on the part of communities to add value through their own contributions. To illustrate this, in Uganda, more than 80 per cent of the population of districts were involved in the planning and budgeting process at various levels especially the parish/village level, resulting in a richer and

more diversified approach to investments. In Bangladesh, around 1,100 people in each Union (of an adult population of approximately 15,000) were typically involved in ward and union level planning processes. This contrasts with the standard planning arrangement which is narrowly confined to 12 (or fewer) councillors with very limited formal consultation.

It is important to consider the extent to which these processes are inclusive, allowing space for women and other disadvantaged groups to voice their needs. The adopted methodologies seek to achieve this, including the use of separate funding windows for women and disadvantaged groups, and the use of simplified PRA type techniques.

However, it is difficult to measure the impact of such planning processes. Surveys in Cambodia have shown a broad level of satisfaction amongst poor groups with investments. In Nepal, the more diversified forms of local scheme investments (including through separate funding windows) also suggest that the needs of the poor are being reflected to some extent. In Nepal, however, a recent study suggests that the poorest groups are largely under-represented in community organizations. Overall inclusive planning processes in rigidly hierarchical societies, such as Nepal or Bangladesh, remain challenging.

The Cambodia case study suggests that, overall, there is good village level representation in project prioritization and identification but that the role of village level representatives in the commune-level Planning and Budgeting Committee, where final resources allocation decisions are made, needs to be further strengthened

In general, it is clear from the above examples that LDP innovations are promoting a form of planning that is more participatory and demand-driven, encouraging more transparent resource allocation and appearing more likely to lead to pro-poor planning and budgeting outcomes. This is further examined in Section 4.3.

TABLE 15: LDP PLANNING AND BUDGETING OUTCOMES

Planning and budgeting	Case Study Countries	
	Bangladesh	Cambodia
The extent and nature of participation	<p>Approx 1,100 people (of 15,000 total) involved in ward level planning. Previously limited to councillor's informal and limited consultation.</p> <p>Planning is more demand led.</p>	<p>2002 planning and investment involved 30% of national population</p> <p>Village level participation in project identification and prioritization high but the role of village level representation in commune-level planning and budgeting Committees still limited.</p> <p>Survey of 120 villagers: 88% expected to benefit. A parallel survey of 120 very poor villagers found that 73% expect to benefit.</p> <p>Planning is more demand led.</p>
Approaches to planning	<p>A more objective and rigorous process of project identification and prioritization improves the appropriateness and equity of scheme selection.</p> <p>Limited use of service access and poverty data.</p>	<p>A regulated five stage planning process provides a general framework and a basis for a national capacity building effort . Technical requirements and overall quality of individual steps of the process are designed to be incrementally developed as commune capacity develops</p>
Integration with national and sectoral priorities	<p>Limited integration with sectoral priorities of higher levels line department. Function of small scale of schemes and limited power & influence of UPs, and lack of line department accountability mechanisms at sub-District level.</p>	<p>District Integration Workshop provide a new multi-level, multi-sector planning and investment co-ordination mechanism (Provincial agencies response to council demands constrained by de-concentration reforms lagging behind decentralization)</p>
Other planning issues	<p>Tension between local community needs and technical appraisal/screening; inadequate attention to operation & maintenance</p>	<p>Budgeting rules still not providing adequate incentives to investment in local assets management/maintenance</p>
Budgeting	<p>Budgeting more meaningful on the basis of known revenues.</p> <p>Better programming of annual workplans associated with timely receipt of funds.</p> <p>Less year end pressure to complete works.</p>	<p>Budgeting more meaningful on the basis of known revenues.</p>

TABLE 15, CONTINUED.

Planning and budgeting	Case Study Countries	
	Nepal	Uganda
The extent and nature of participation	<p>Diverse nature of scheme selection suggests wider consultation and inclusiveness.</p> <p>Community organizations still reflect social hierarchies (representation of poor limited). Process remains prone to elite capture</p>	<p>More than 80% of the population of districts was involved in planning and budgeting processes at some level.</p>
Approaches to planning	<p>Community based approach to planning is weaker on technical dimensions such as appraisals, deficiency analysis.</p> <p>Process remains weak on design and costing, cost benefit analysis and more.</p> <p>Separation of DDC & VDC projects on basis of cost not type of project.</p>	<p>Shift away from problem based approaches towards a more goal oriented approach with emphasis on SWOT analysis, livelihood analysis and poverty analysis.</p> <p>Production of national level Harmonised Planning Guidelines.</p>
Integration with national and sectoral priorities	<p>Limited integration of community based approach with sectoral priorities can result in fragmented local development.</p> <p>No local government capacity development</p>	<p>Integration of sectoral priorities remains a challenge</p> <p>Sector conditional grants serves to predetermine the sectoral focus of investment</p>
Other planning issues	<p>Ambiguity about responsibilities for recurrent costs.</p>	
Budgeting	<p>Budgeting more meaningful on the basis of known revenues.</p> <p>Budgeting role of VDCs more limited by community based approach.</p>	<p>Budgeting more meaningful on the basis of hard budget constraint.</p> <p>Local government now required to prepare Medium Term expenditure frameworks.</p>

Integration of local planning into sectoral planning processes

The countries show different levels of success when integrating locally identified needs with sectoral planning priorities. This is important for ensuring co-ordination and effective operation and maintenance. In Uganda for example there has been recognition of the need to reconcile bottom up identification of ISD needs with the need to ensure that final decisions about approval and implementation are made by the level of government best suited to provide O&M.

In Nepal and Bangladesh, sectoral co-ordination is especially weak. In the latter country, the institutional weakness of local government has meant that it has little power to influence the expenditure programmes of deconcentrated sectoral line agencies at a higher level. In Nepal, the weak cross sectoral linkages are partly a function of the community-based planning approach (which currently only involves VDCs and not all units of local government). The fact that projects identified through VDC planning processes are not screened at Ilaka and sector levels is a clear weakness. This limits cross sectoral co-ordination.

In Cambodia, the District Integration Workshop represents a new institutional mechanism through which the communes can articulate their local demands. Whilst the flexibility of line departments to respond to local government remains constrained, there are signs that this process is starting to influence sector programming of resource allocations.

Poor intersectoral co-ordination is also partly a function of the definition of local government responsibilities and the system of fiscal transfers that is operating. In Uganda, for example, the widespread use of sector conditional grants serves to predetermine the sectoral focus of investment, and effectively “ties the hands” of local government.

The impacts of predictable, timely fund flows to local government

The increased predictability in fund flows and the linkages to budgetary processes are allowing incremental improvements in planning and budgeting processes, and associated improvements in service delivery. This is most advanced in Uganda where local government is now required to prepare “Medium term expenditure frameworks”. In the other countries the involvement of LGs in national budget preparation exercises is very limited.

Another impact of the LDP block grant mechanism relates to the timely release of funds. This has allowed local government to plan and

implement schemes in a more systematic manner. Under standard government arrangements there can be instances of disruption and delays associated with the lack of funding. Alternatively, fund release can be made towards the end of the financial year – requiring a rush to complete works before the year end. This can result in poor tendering and contracting processes and substandard quality of works. Timely release of funds can allow LG units to prepare work plans which will serve to improve the programming of works.

4.3 INVESTMENT SCHEME IMPLEMENTATION

The scheme implementation outcomes of UNCDF support are summarized in Table 16.

The types of schemes supported

The four case studies show significant variations in the type of ISD provision that has been provided using the LDP approach. In Uganda, there was considerable diversity in the use of funds, although these were focused within the five Poverty Eradication Action Plan thematic areas. 96 per cent of schemes fell within these sectors, as shown in Table 16. This focus (including the significant investment in health and education) suggests a strong poverty focus. In Bangladesh and Cambodia, the primary focus of investment has been in roads and rural transport. For example, in Cambodia, in 2002 and 2003, more than 60 per cent of funding went to rural transport schemes. In Bangladesh, during the same period, 62 per cent of investments were for schemes for roads, bridges and culverts. In Nepal, by contrast, only 25.5 per cent of investment was in roads. A more diversified range of investments have included: schools, irrigation schemes, water supply systems, biogas toilets, and more.

It is unclear whether a narrower focus on roads and transport infrastructure represents either a clear expression of local needs and whether the poverty impact of investment is maximized (or might be better served through other investments, such as in core sectors of health, education, etc). Whilst it is difficult to target road investments for the poor and most vulnerable of society, roads do provide access to facilities and markets, and in flood prone countries such as Bangladesh are of special significance in ensuring even basic mobility (especially of women). Moreover, surveys in Cambodia have shown that the poor have expressed satisfaction with investments made under the CSF programme and expect to benefit from them.

The size and type of schemes supported

Across the case studies there has been considerable variation in the scale of projects funded. For example, in Bangladesh, the average scheme cost in the first two years of the project was just US\$ 660, whilst in Cambodia, under the CSF average scheme cost was US\$ 5,000 (average size: Nepal US\$ 2,360, Uganda US\$ 3,500)

In Bangladesh, this preference for smaller schemes reflects a number of issues. National guidelines require that schemes of more than US\$850 cannot be undertaken by community contracting but should use private contractors. Local governments dislike the latter because their control is reduced (management and supervision of contractors, is generally undertaken by line departments) and there can be additional leakage of resources.

Moreover, LDP experience suggests that there is a political bias (at least in the early phase) to spread resources across all wards (to benefit all councillors and communities). There is a danger, however, that the preference for smaller projects may limit the impact of investment and may neglect more pressing strategic needs. In Nepal, for example, there is a concern that certain types of larger or more strategic projects (especially roads) are not emerging from the planning process and so are underfunded.

Cost and quality of schemes prepared under LDPs

It is important not only to focus on the poverty impact of ISD in absolute terms, but also on the relative efficiency of ISD through rural local governments. The case studies highlight some evidence on both the cost and quality of ISD investment under the LDP arrangements as compared with the usual arrangements.

In Uganda, the cost of new ISD assets was found to be 30-50 per cent cheaper than those managed under standard arrangements. And of the 1,816 schemes undertaken, 86 per cent were rated as being of satisfactory quality.

In Bangladesh, based on a small sample of field inspections, there was a differential in the region of 30-40 per cent between the value of assets built using standard approaches and those under LDP arrangements, in favour of the latter. In addition, there were substantial differences

observed in the use of materials, labour and other inputs. On the basis of this it is estimated that the life span of assets planned for under the LDP can be as much as four times longer than that of standard LG infrastructure. This differential was reported in part to be a function of improved implementation and supervision processes that also included significant community participation, in part a function of the more efficient scheme planning which was possible thanks to the known budgetary availability of the block grant, and in part due to reduced corruption because of the greater transparency of the planning and procurement processes.

A recent study in Cambodia compared the actual costs of a large sample of commune-funded construction projects with “reference prices” based on average market costs of materials and contractors’ overheads, and other agencies’ estimates and found that the costs of commune projects were generally lower than the reference prices and those incurred by other agencies. Instead of being inflated to facilitate corrupt practices, as some had suggested, commune-managed contracts prices were possibly failing to reflect the true costs of the works, resulting in pressures to “cut corners” during implementation and produce lower quality outputs. Indeed another recent survey of a sample of 13 communes suggests that quality problems in commune-managed infrastructure projects may be widespread; potentially reducing any productive efficiency gains derived from local competition and lower contract costs. A number of reasons seem at play in lowering outputs quality. Delays in transfer of CSF resources, (as those actually experienced in 2003), may create cash flow problems for contractors, compromise construction schedule and result in inappropriate wet-season operations. Also lack of communes’ compliance with contractual obligations to provide labour or cash contributions may be used by contractors to lower their effort and deny responsibilities.

Technical support to implementation

Generally in all countries the capacity of local government staff to plan, design, cost and supervise ISD provision is limited. A range of means have been used to address this. In Nepal, six per cent of the district fund allocation has been set aside for technical assistance, either temporary or permanent. In practice, this has generally involved support through permanent contract staff. In Uganda and Cambodia, the LDP approach is also strongly institutionalized with higher levels of government providing technical support units for local government (although in the latter

TABLE 16: LDP SCHEME INVESTMENT IMPLEMENTATION OUTCOMES

Implementation	Case Study Countries	
	Bangladesh	Cambodia
Number of schemes	523 schemes (2001-02 & 2002-03)	847 schemes (2002) in 4,700 villages benefiting 30% of national population
Average project cost	\$660	US\$5,000
Types of schemes supported	62% roads, bridges and culverts 8.9% schools equipment 6.9% latrine installation 6.4% installation of tubewells, and more (2002-03)	61.9% road transport 14.9% rural water supply 14.9% education facilities 7.7% Irrigation 0.2% Health facilities 0.3% Community buildings (2002-03)
Unit Cost and Quality Outcomes	Evidence suggests 30-40% extra value of asset compared with usual government ISD provision- Better use of materials, labour & other inputs & possible 4X increase in lifespan Interviews suggested reduced “leakages” from around the usual 40% to approx 25% in LDP schemes.	Commune ISD costs are significantly lower than those obtained under more centralised procurement arrangements and compare favourably with average market prices, There are however concerns about quality of Commune-managed infrastructure construction.
Technical support	Significant use of contract project staff. Involvement of higher level line depts is has been problematic, and institutionalizing support for UPs remains weak. Use of community volunteers in Union Facilitation Teams has been successful.	The Technical Support Staff capacity remains to be improved. TSS are currently overstretched
Operations and maintenance	O&M remains weakly institutionalised. Scheme Implementation Committees have an O&M role.	Investments in maintenance of locally built infrastructure are not given the necessary attention as Commune Councils do not yet have clear responsibility for it.

TABLE 16, CONTINUED.

Implementation	Case Study Countries	
	Nepal	Uganda
Number of schemes	677 schemes (2001 & 2002)	1,816 schemes (during project lifetime)
Average project cost	US\$2,360	US\$3,500
Types of schemes supported	A diversified portfolio of investment. 14 scheme categories 25.5% Roads 19.3% School facilities 12.0% Community buildings and more (2001 and 2002)	Investment in line with Poverty Eradication Action Plan priorities: 44% education schemes 20% health schemes 20% roads and drainage 10% water and sanitation, and more
Unit Cost and Quality Outcomes	Quality often negatively impacted because some schemes are underfunded and there may be a need for User Committees to mobilise excessive community contributions	Costs 30-50% cheaper than standard Isd arrangements. 86% of schemes rated as being of satisfactory quality. Significant use of local labour (19% of total project costs)
Technical support	User Committees lack technical skills and require backstopping. Unable to undertake more complex works. Technical support affected negatively by the insurgency.	Demand based capacity development has met local needs (48% has targeted women). Mentoring concept has improved relations between different levels of government and has built capacity.
Operations and maintenance	Good O&M of small scale more visibly "public" community based schemes O&M generally weakly institutionalised. Poor design increases O&M burden	Good O&M of small scale schemes with user charges, & previous community planning/implementation roles. Fiscal transfers - limited provision for O&M Financial management guidelines need to specify roles and responsibilities better.

country such support is clearly overstretched). In contrast, this has been more problematic in Bangladesh. Developing and institutionalizing mechanisms for technical support of local government after project completion remains a challenge in all countries.

In Uganda the project also promoted the use of a mentoring concept by which higher and parallel levels of government provide support to local government. This has worked effectively both to build capacity and to promote communication between different administrative units. To illustrate it is estimated that mentoring for Kotido District served to increase its absorptive capacity by some 390 per cent over a three to four year period.

The inclusion of a demand based capacity building component in the Uganda LDP served to ensure that training provision matched the specific needs of individual LG administrative units. It is clear, however, that there are core capacity building dimensions which are known *a priori*. There has also been a recognition that capacity building should focus on politicians, contractors and community groups not just officers. This recognizes the value of co-production approaches to ISD provision.

Operations and maintenance

In all case studies, ensuring effective operations and maintenance remains a significant challenge and may limit the sustainability of scheme investments.

It is clear from the case study experience that there is greater scope for effective O&M where schemes are small scale, “hardware” focused, where user charges can be levied and where communities have been actively involved in scheme planning and implementation. In Uganda especially it has been found that it is important to link local planning processes and the identification of needs with the technical agencies that will be responsible for future operation and maintenance. There is also a need for budgetary provision for recurrent costs is made at the planning stage.

The nature of O&M is also related to national service delivery standards. In Uganda these have been clearly established and disseminated in health, education and water, but for other sectors there is ambiguity in relation to both design specifications and service delivery in relation to quality, quantity and accessibility.

TABLE 17: TYPES OF LDP INVESTMENTS BY SECTOR IN UGANDA.

ISD Sectors				
Health	Education	Roads & Drainage	Water & Sanitation	Agriculture (Production)
Building materials Equipment Health units Kitchen Laboratory Maternity ward Out patient dept. Bicycle ambulance Pit latrines Placenta pit Staff houses Store Utilities Solar energy	Building materials Classroom Desks, chairs & tables Duplicating machine Staff houses & offices Text books	Bridges Community roads Culverts Earth road Gravel Maintenance Paved Road maintenance Road maintenance equipment Desilted drain Lined drainage	Boreholes Gravity water scheme Hand angled well Hand dug well Motor drilled well Piped water Protected shallow wells Protected springs Pump tools Shadough wells Spring boxes Water kiosk Water tanks Bath rooms Latrines Squatting stances Weighing shade	Afforestation Banana suckers Bean seeds Beehives Cassava cuttings Cattle dips Coffee seedlings Demonstration gardens Donkeys Fish fries Fish ponds Fish slabs Floating jetty Goat Insemination kits Irish potatoes Kilns Layers Maize seeds Nursery shades Ox-ploughs Pigs Rabbits Spray pumps Sweet potatoes Tsetse fly control
169 projects	741 projects	322 projects	467 projects	117 projects
20% (of total)	44%	20%	10%	4%

Levels of O&M are also governed by the nature of the local government fiscal transfer system. In Uganda, for example, fiscal transfers are primarily in the form of conditional investment grants and do not directly cover recurrent expenditures. The provision of clearer financial management guidelines would serve to clarify the nature of recurrent expenditures that local governments should be responsible for.

There may be scope for LDPs to promote more effective O&M through providing incentives for establishing O&M arrangements, funding conditionalities based on evidence of O&M costs being budgeted for and the institutionalization of maintenance planning methods. In Cambodia, the specification in the detailed budget regulations of a certain level of mandatory expenditures, is being considered as a means to encourage maintenance spending.

4.4 ACCOUNTABILITY

The accountability outcomes of LDP innovations are summarized in Table 18 on page 90.

In Cambodia, the establishment of the Commune Councils (where previously there was no elected representation) has in itself served to improve local accountability and governance.

Elsewhere, the performance assessments and social audits (described in Part 3) have brought real improvements in the extent of local government accountability and in improving citizen understanding of the role of local government.

The LDP communication and public information initiatives (scheme notice boards, project books, etc), as described in Part 3, have to some extent been project conditionalities and all the case studies are clear that these have been successful in directly improving citizen understanding of local government. In Uganda and Bangladesh, the LDP approach has made the provision of public information one of the measures against which local government is assessed. This is linked to the release of funds, and so has acted as an incentive for local government to be more open. The Nepal case study highlights that such mechanisms do not necessarily reach the very poorest (such as those who cannot read). This would require other, more proactive approaches.

It is interesting to note that in Uganda, whilst there has been significant progress in improving levels of accountability and transparency (for

example participatory budgeting processes are now widely practised), to some degree this has generated a backlash, as people react negatively to the information they are provided with and are disappointed with the performance of local government. Indeed, in both Uganda and Bangladesh, there has been a considerable turnover of politicians during local elections despite successful project activities.

This points to a more general paradoxical outcome: precisely where LGs assume a greater ISD role, where expectations increase, where they become more transparent, and where their accountability is enhanced, so their failures also become more evident and there is a tendency for greater local dissatisfaction to be expressed!

4.5 PRO-POOR OUTCOMES

Up until this point we have catalogued the various kinds of outcomes which are more or less attributable to the LDP innovations described in Part 3. But the question remains: To what extent were the innovations pro-poor?

It is beyond the scope of the case studies to undertake in-depth assessments of poverty impact of the ISD innovations under review. The best that can be done is to examine some “proxy measures” which indicate the probable poverty impact.

- All four LDPs have concentrated uniquely upon supporting rural local governments. This is in overt recognition of the overwhelmingly rural dimension to poverty. There are, of course, poor people in urban areas. However, consider the following: (a) the largest numbers of the poor are to be found in rural, and not urban, areas; and (b) the statistical likelihood of a given household being poor is twice as high – or more – in rural areas. By operating in rural environments, the four LDPs have consciously sought ways to improve LG service delivery and expand it to where it is (and is likely to remain for the foreseeable future) most needed.
- Some of the LDPs (Uganda, Bangladesh, Cambodia) have allocated larger per capita grants to LG units that are poorer. This principle is now being adopted in Nepal, thereby recognizing that the needs of poorer (and more remote) areas are likely to be greater than those that are slightly better off.

TABLE 18: LDP ACCOUNTABILITY OUTCOMES

Accountability	Case Study Countries	
	Bangladesh	Cambodia
Participatory planning	Major increase in public involvement in and understanding of UP plan and budget decisions	Major increase in public involvement in and understanding of commune plan and budget decisions Some increase in accountability of deconcentrated District & Province administration through DIWs
Performance Assessments	Real improvements in performance & accountability of UPs resulting from public performance assessment. Potential for more effective upward accountability and meaningful reporting on results	Great variations in the ability of Provincial Administrations to induce improved local performance through appropriate support and supervision of Commune Councils. Potential for more effective upward accountability and meaningful reporting on results
Communication and Public Information	Significant improvements in levels of public information and community awareness. Significant councillor turnover at local elections – both positive and negative results.	Significant improvements in levels of public information and community awareness.

- All of the LDPs have integrated pro-poor planning outcomes into their performance-based assessments. In Uganda, for example, where LGs demonstrate an investment portfolio that is consistent with the sectors prioritized by the national Poverty Eradication Action Plan (PEAP), they are likely to be rewarded through increases in their annual allocations.
- In the cases where LDPs have supported multi-tier LG systems (as in Uganda and Nepal), funding allocations have been deliberately channelled to lower tiers. In Uganda, 65 per cent of district block grants were channelled to sub-counties and lower. Such “cascading” finance is intended to impact as directly as possible upon village communities and is thus structurally more likely to be of pro-poor significance.

TABLE 18, CONTINUED.

Accountability	Case Study Countries	
	Nepal	Uganda
Participatory planning	Limited downward accountability due to limited link of planning and VDC and DDC planning & budgeting	Major increase in public involvement in and understanding of LG plan and budget decisions
Performance Assessments	<p>Social Audit perceived to have a significant impact on extent of UC and LG accountability.</p> <p>Potential for more effective upward accountability and meaningful reporting on results</p>	<p>LG incentivised to improve accountability and performance through public performance assessment.</p> <p>Much greater upward accountability and meaningful reporting on results already achieved</p>
Communication and Public Information	Significant improvements in levels of public information and community awareness but failing to reach the very poorest. Scope for use of other technologies to reach the poorest groups	Significant improvements in levels of public information and community awareness. Some negative reaction (councillor turnover) based on disappointment with LG performance.

- In some LDPs, a certain proportion of annual allocations is *a priori* earmarked for investment in projects proposed by women (Bangladesh), or estimated to benefit the poor or scheduled castes (Nepal).
- The great preponderance of expenditure outcomes has been on those sorts of ISD-related investments which are more likely to benefit the poor than the non-poor: basic primary access, health, education, and water supply facilities.
- There is strong suggestive evidence that these ISD expenditures have been undertaken with greater efficiency and less leakage than those managed under more conventional arrangements.
- Finally, even though the participatory processes in each case are far from ideal, a far greater number of local people were involved in the decision-making than is usually the case. Such practical forms of empowerment are themselves now considered to be an integral part of poverty reduction.

None of this is to say that LGs provide the sole solution to rural poverty reduction. However, they clearly are an institutional actor with a major potential role to play, given the right enabling policies and procedures.

5.1 NATIONAL POLICY INFLUENCING

The frequent and legitimate question raised in regard to examples of “good practice” is *Can they be sustained and replicated?* Whether they can or can not is primarily dependent on how far these innovations are or can be mainstreamed within the national policy and institutional framework.

The primary aim of the LDP strategy is indeed to demonstrate “policy relevant” innovations that influence national policy formulation processes. LDPs have had significant success in influencing national policy, as highlighted in Table 19.

In Uganda, the LDP systems and approaches have had a major influence. Planning procedures and performance-linked funding procedures have – with some modification – now been adopted as policy and mainstreamed nationally for all local governments. Moreover, the government is establishing a Fiscal Decentralization Strategy that is focusing on consolidating the large number of conditional grants and building in LDP features. Overall, the LDP contributed to general acceptance of the ISD role of the sub County (the main focus of the 1997 Act) about which there had initially been serious concerns expressed (“weak capacity”, etc.). Donors too have replicated. They have at the same time been adopted as taken up and replicated nationally by the World Bank in two separate projects with a more limited level of technical assistance (the Local Government Development Programmes I and II). Other donors have used this project as an opportunity to integrate their funding programmes.

In Bangladesh, the policy environment is far more challenging than in Uganda, and there is little commitment to the implementation of a decentralization agenda. For this reason the LDP strategy is to promote technical improvements within the existing legal and institutional parameters. Nonetheless, there is now formal interest from government to switch a proportion of the government’s Annual Development Plan (central government transfer) to direct, performance-linked funding to

TABLE 19: LDP POLICY INFLUENCING OUTCOMES

Case Study Countries			
Bangladesh	Cambodia	Nepal	Uganda
<p>Impact assessments and evaluations of project findings have fed into national workshops to disseminate findings. Replication of innovations by other donor agencies.</p> <p>Government interest in wider uptake of performance-linked block grant funding for UPs and replication of other aspects of the LDP.</p>	<p>National uptake of LDP approach, establishment of Commune Councils, CSF and Commune development planning system as shown by central government initiatives:</p> <ul style="list-style-type: none"> - new legislative framework (1999) - National fiscal decentralization strategy (2000). - Issue of CSF and the Commune Planning decrees/regulations (2001). 	<p>LBFC considering adoption of a performance-based fund allocation system, using minimum conditions and performance measures (but implementation tied to reinstatement of local elected bodies);</p> <p>Support for national fiscal decentralization reform</p>	<p>Role of sub County in ISD now fully accepted due to piloting, in contrast to earlier widespread scepticism;</p> <p>Planning, financing and accountability innovations integrated into national regulatory framework;</p> <p>Conditional grant system being redesigned to reflect performance-based principles;</p> <p>Wider uptake of LDP approach in World Bank Local Government Development Programmes I and II and in design of multi-donor Poverty Action Fund.</p>

Union Parishads, and to extent the participatory planning procedures on a wider scale. Several donors have also replicated these approaches. The challenge is now to devise “extension” mechanisms such that these various innovations can be rolled out through the government administration itself, with minimal external assistance.

Over a period of five years, the LDP innovations in Cambodia have had a powerful demonstration effect and were instrumental in creating a political constituency for the development of an elected and autonomous tier of local government. The basic local-level financing and planning instruments developed under the experimental CARERE-2 programme, were eventually largely incorporated in the legal framework regulating the emerging commune authorities, through:

- (a) The set up and initial financing of the Commune/Sangkat Fund - CSF, explicitly conceived as the pilot of a national fiscal transfers mechanism for local development. As previously illustrated, the CSF is the main mechanism for financing the development spending needs of the newly elected commune councils.
- (b) The development and testing of appropriate local-level planning, programming and budgeting procedures, under the title “Commune Development Planning” (CDP).

At the national level, “upstream” specialized assistance was provided to the Cambodian Ministry of Interior (MOI) for the development of the legislative framework of the reforms (The “Law on Communes/Sangkats Administration” 1999) and to the Ministry of Finance for the design of a national fiscal decentralization strategy (2000). Later, it also directly assisted the Ministries of Finance and Planning in drafting both the CS Fund and the Commune Planning decrees and regulations (2001). There are significant ongoing challenges that relate to implementation within newly-established government institutions.

In Nepal, after an initial focus on five districts, the project has been expanded with co-funding from DFID to a further 12 districts, reaching a total population of some 600,000 people. The direct impact of the fund has been limited by the insurgency which has effectively served to put local government development on hold. In expectation of the reinstatement of elected local bodies, UNCDF is collaborating with Danida to provide technical assistance to the National Local Bodies Fiscal Commission to prepare the process of fiscal devolution. In this initiative, the focus has been on: (a) developing an appropriate poverty-related formula for unconditional block grants to LGs; (b) developing a comprehensive set of guidelines for performance-linked funding (with important South-South learning from the Uganda experience); and (c) undertaking applied research on appropriate functions and expenditure assignments of DDCs and VDCs.

5.2 LESSONS FOR EFFECTIVE POLICY INFLUENCE & REPLICATION

Role of Pilot Innovations

The previous sections of this report have shown how different each country context can be. LDP experience shows that piloting innovations can

contribute to promoting ISD decentralization policy in two ways:

- Where there is little or no political drive to decentralize ISD functions and resources to LGs (as in Bangladesh now, and indeed as in Cambodia in the mid 1990s) the role of a pilot experiment such as an LDP can be to simply show what can be done, to demystify the usual “weak local capacity” allegations, and generally to better arm the advocates for change and to inform national debate.
- In countries where there is a political drive to decentralization (such as Uganda, in Cambodia now, or in Nepal until the troubles) the role of a piloting experiment can be more to test “how to ...” policy options and procedures in direct partnership with national policy-making bodies.

Ingredients for Successful Policy Influence

Nonetheless, in all case study countries, there are common elements which underpin the LDP strategy to influence policy:

- LDP innovations were designed, as much as possible, within the statutory and regulatory framework for local government, and with a view to reforming this “from within” by addressing problem areas affecting LG performance which had been identified jointly with local governments.
- Both local and central government partners have been closely involved in a consultative fashion through the LDP design processes. This has helped to ensure government involvement in, and understanding of, project activities.
- LDP implementation responsibility has been entrusted to the central government ministries in charge of supervision and support to local government. Institutionalizing projects in this way has also allowed LDPs to improve the enabling and supportive role of higher levels of government.
- Policy influence has also been achieved through documenting and disseminating project impacts and lessons. This process is built not only monitoring and evaluation systems, but also involves dis-

crete external evaluations, workshops and seminars. Findings have been disseminated nationally and internationally. For example, in Uganda, a series of “Policy Briefing Papers” was produced.

- A final means by which policy influence has been achieved is through the provision of direct and focused technical assistance to central government decentralization reforms. In Cambodia, support has been provided to: the Ministry of Interior (MOI) for the development of legislative framework (1999); to the Ministry of Finance for the design of national fiscal decentralization strategy (2000); to the Ministries of Finance and Planning in drafting CSF and the Commune Planning decrees/regulations (2001). In Nepal, support is being provided to the Local Bodies Fiscal Commission, which has agreed to use LDP districts for testing formula-based block grants, linked to performance as a basis for designing the national inter-governmental fiscal transfer system, and for testing realistic division of expenditure assignments between District and Village Development Committees.

6

Lessons Learned and Future Challenges

6.1 DECENTRALIZING RURAL ISD TO LOCAL GOVERNMENTS – GENERAL LESSONS

Policy Trends

The Case Studies have shown that the policy context for further decentralization of rural ISD to local government varies greatly. It is most advanced in Uganda while in Cambodia it is still in a nascent stage. In Bangladesh and Nepal, further progress is less certain – due to political opposition and armed conflict, respectively.

Progress towards devolution to rural local government bodies is varied and is hindered by fears of a lack of “local government capacity”, or of the potential for local misallocation of funds, or of “elite capture”.

It is also undermined, on one hand, by a prevalent mistrust of elected local government amongst segments of national ruling elites and, on the other hand, by the tendency of some major donor programmes to bypass local government for reasons of “expeditious delivery”.

Evidence on Role of Rural LGs

The Case Studies have, on one hand, all confirmed the underlying premise that the rural challenges are indeed more considerable than those in urban areas – these are detailed in Table 20. These challenges relate both to demand and to supply of infrastructure and services:

- Devising *demand-driven* planning procedures in rural areas is indeed harder – due to a relatively ill-educated, dispersed citizenry; to very limited communications channels; to the relative weakness of horizontal associational activity; to the relative prevalence of vertical patronage relations; etc.

**TABLE 20: LOCAL GOVERNMENT SERVICE DELIVERY IN ASIA: RURAL/
URBAN CONTRASTS**

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

- Devising effective and efficient *local government supply* is also harder in rural areas – due to basic human resource limitations of LGs; to the typical institutional “split” between local technical agencies and elected local governments; to the paucity of private sector capacity; to high overall “transaction cost” factors; to the lack of supportive oversight by higher levels of government; and – all too often - to a policy, legal, regulatory and financing framework which constrains the responsiveness of rural LGs.

But the good news is that – even given these contextual constraints – a great deal can be done to improve ISD by rural LGs when basic changes are introduced to this framework of policies, procedures and financing. Indeed, the case studies show how changes to the funding mechanisms alone (e.g. introduction of a more transparent and performance-related block grant system) have had a considerable impact.

This aside, the role of rural LGs in ISD cannot be assessed against absolute ideal standards – but rather should be compared to other institutional options. Imperfect as they are, rural LGs still compare very favourably in basic ISD to both central government agencies and NGOs.

Finally, it must be remembered that elected rural LGs play an important and irreplaceable role in promoting better local governance and democratic activity. This is something which in itself is of great importance to the rural poor (as numerous national participatory poverty assessments have revealed), quite aside from more tangible ISD outcomes.

The Role of Pilot Innovations in Changing Policy

Here, of course, little can be done to challenge vested interests in the status quo which oppose decentralized ISD. But Case Study experience does suggest some positive lessons as to the role of well-designed pilot innovations:

- In countries where there is no strong political drive towards devolution (Cambodia in the mid 1990s, Bangladesh now), dissemination of the positive results of pilot experiments can serve to change attitudes, or at least to demystify the blanket claims about “weak local capacities”, and to strengthen the advocacy for change.
- In countries where there is a strong political drive towards devolution (Uganda, or Nepal, until the recent troubles) well-designed

pilot experiments can be used to trial “how to ...” policies and procedures, which can then be rolled out nationally.

6.2 SECTORAL LESSONS

General

Even in a situation of positive political commitment, a major challenge for effective rural ISD lies in obtaining conformity and clarity about specific institutional and funding arrangements within the key individual sectors (primary education & health, transport, water, agriculture etc) – which too often are aggregated in one box. In none of the case studies has this been satisfactorily resolved. The key issues revolve around:

- Defining the functional responsibility assignments between national and sub-national government, and the appropriate degree of deconcentration or of devolution to local government;
- At the sub-national level, identifying the appropriate agencies and the appropriate level of subsidiarity for provision (policy, regulation and usually funding) and production (physical supply) of ISD;
- Defining the appropriate levels of decision-making and funding modalities; *and*
- In the case of devolution, obtaining the appropriate levels of authority, financial and technical capacity for local government to perform its provision and production roles, or co-provision and co-production roles (e.g. for some part of ISD).

In all of the Case Studies, the LDPs are assisting in the clarification of these issues through piloting procedures for fiscal and functional decentralization, lesson-learning, demonstration of improved practice (or obstacles to reform), and through technical assistance for further policy and procedural development.

In countries such as Uganda where there has been strong political commitment to functional devolution to local government, the LDP piloting in five different sectors (health, education, agriculture, water and roads) has shed some light on the appropriate functions of central

BOX 5: LESSONS OF DECENTRALIZING ISD IN UGANDA

Decentralization Policy Framework: there is paradoxically a need to have a strong central government with a strong political commitment to decentralization. Although local financing is an integral feature of an effective decentralization policy, it does not mean that the service must be fully financed locally for decentralised decision-making to take place. It is the form that inter-governmental fiscal transfer systems take (i.e. the degree of conditionality) that will determine the degree to which local governments retain decentralised decision-making powers.

“Policy” and standards: for all the five sectors under review the responsible line ministry at the central government level provides the policy and standards for the particular sector.

Planning and resource allocation (“Provision”): the LGs Act 1997 has devolved service delivery mandates to LGs. The decision as to what type of service should be provided, where and at what cost is a devolved function to LGs. However line ministries, through sector conditional grants were determining the quantities of the investments to be made in their respective sectors within a LG without necessarily determining where such investments should be located (delegation).

Construction of infrastructure (“Production”): this is the implementation of the plan by transforming inputs into physical investments on the ground. Under the DDP/KDDP a number of different approaches were used to produce the five ISD under review. The four sectors (education, health, water, and roads), which require some engineering input, are being supported by Technical Support Units (TSUs) provided by the responsible line ministry.

Operation & maintenance: for every new investment there is an associated recurrent cost implication. However the recurrent cost varies from one infrastructure to another. It is important that for sustainability the recurrent cost of such infrastructure is borne by that level of institution (community, LG or central government), which has the technical and financial capability to manage such an infrastructure. Within a sector, depending on the nature and complexity of investment, there could be many different levels for operations and maintenance.

Monitoring and evaluation: although this is being used mainly as a management tool, M&E played a very important role in documenting the lessons learnt, identifying areas for policy research and influencing national and donor policies in development financing.

and local governments, and the appropriate planning, funding and implementation modalities. A summary of the lessons from the sectors is shown in Box 5.

More Specific Sector Lessons

LDP experience suggests several lessons on the relative ease with which different ISD sector functions can be entrusted to rural LGs:

- **User Community:** Rural LGs are best able both to plan delivery and to ensure O&M arrangements where investments serve a small community of users. This is simply because in such cases it is much easier to organize “user communities” for implementation and long term management. Examples are tubewells, small irrigation schemes, village tracks. (These are in contrast to investments such as inter-village or inter-commune roads, or hostels serving pupils from a wide area, which are inherently more problematic.)
- **Vertical Linkages:** For rural LGs, the sectors which are simplest to manage are those where issues of “vertical integration” are minimal – i.e. where there is little reliance on higher levels of local government or on deconcentrated line departments for “co-production” (recruitment and deployment of staff, or other recurrent inputs, or technical backstopping). Examples of “standalone” investments are rural water supplies, tracks & trails, repairs to existing schools or clinics, etc. By contrast, new health facilities pose considerable challenges of vertical linkage.

That said, devising a more comprehensive and appropriate policy, institutional and financing framework for decentralization of each of the key ISD sectors – and tailored to the institutional topography of each of the countries in question - remains a major challenge.

6.3 FINANCING

The four case studies have revealed several lessons in the area of financing:

- Pre-determined and pre-announced capital budget allocations make the planning process meaningful. Unless LGs know what financial resources they will receive and that these will indeed be

forthcoming, their planning remains largely a process of “wishful thinking” and therefore almost pointless. Citizens can be consulted and can participate – but without something concrete in return, they have few incentives to do so in a meaningful way. Judging peniless rural LGs by their poor planning record is not fair.

- Local government discretion over the use of funds is not an invitation to disaster, provided that the right institutional and other arrangements are in place. Local discretion provides for flexibility and for ISD to vary from place to place (in response to differing priorities and needs). Although sector conditional grants are always (for good reasons) likely to remain a significant revenue item for LGs, their “insensitivity” to local situations should be tempered through the judicious use of discretionary grants, which are more likely to be used in location specific ways and almost certainly underline the need for greater local accountability and participation.
- Financing instruments can be designed so as to improve LG performance, as has been shown in Uganda and Bangladesh. Where elected officials know that good performance leads to bigger capital expenditure allocations, they usually respond by doing their best to improve LG management. Where they know that access to capital grants is contingent upon compliance with statutory provisions about local government, they will also work hard to meet those standards, and thus improve local governance in general.
- In all four case studies (although to varying degrees) a key lesson is that own-source revenues are vital to local governments. Such revenues provide LGs with truly discretionary funds that can be used to finance recurrent costs (salaries, O&M, administration, etc.). Injecting capital funds is, of course, important – but in so doing, it becomes quickly apparent that unless LGs enhance their ability to cover recurrent expenditure, many investments may prove unsustainable. LDPs such as those described in the case studies have yet to have a significant impact on this issue – and, indeed, may not be the ideal vehicles for influencing LG fiscal policy or performance. Given that rural contexts are not intrinsically favourable to big improvements in LG revenue collection, the challenge here is considerable.

- There are two further positive lessons on the block grant funding approach: (a) it encourages LGs and communities to mobilize their own resources to complement this amount (see esp. the Nepal case); and (b) at the same time, it tends to switch the focus of LG politicians away from lobbying central politicians and officials for extra funds.

6.4 PLANNING AND BUDGETING

The main lessons to be drawn from the four case studies on Planning and budgeting innovations are:

- Overall, the provision of predictable financial allocations has served to make planning a meaningful and legitimate process for local governments and has generated significant community involvement.
- It is feasible and helpful to bring participatory approaches to bear on LG planning and budgeting. Contrary to conventional wisdom, local politicians may often see it in their own interest to go along with this. However, care must be taken to ensure that the long run costs of participatory approaches are affordable by LGs themselves, with minimal external support (a source of concern in Nepal).
- It should be recognized that participatory events in rural areas (like meetings or organizations everywhere) will always tend to be dominated by a few, more articulate, influential or confident individuals (although categorizing these uniformly as the “elite” is not very helpful – they may be conservative or progressive, or some mix). Process transparency can at least mitigate the negative effects.
- In some cases, the LG institutional framework may itself need to be developed to ensure a more effective community-council interface as an essential element in more effective participation and downward accountability (see both Bangladesh and Cambodia, each for rather different reasons).
- Planning should also go beyond participatory needs assessments and should also include simple technical tools to render prioritization transparent and consistent (for the necessary rationing of scarce funds), and to ensure that operation and maintenance

arrangements and budgets are in place (still a challenge in all four cases).

- Such tools can also be used to promote poverty and gender targeting (through prioritization and selection criteria), although much care is needed in their application (as in the Nepal case.) The establishment of separate funding windows for proposals derived from specific marginalized groups shows promise (Bangladesh). More generally, performance-linked funding can also be used to encourage better targeting.
- Planning procedures based solely on “community” proposals are likely to bias ISD outcomes, in two ways: (a) they will focus mainly on schemes of very local, community benefit and tend to neglect more public or strategic ISD activities (as noted for Nepal); and (b) they will tend to focus on more obvious “off the shelf” schemes (all cases). There is a need to ensure that bottom up planning also allows for input by local government representatives and technical staff – but in a transparent manner, and without overturning locally expressed priorities.
- On the other hand, the politics of local government resource allocation also tends to be biased in three ways. (a) It will tend to favour “equal allocations” of ISD schemes across wards or villages. Such “equality” may at times be in conflict with a poverty or an efficiency focus. But there is evidence that this may be a transitional phase, and that over time a more selective allocation process becomes acceptable. (b) It will tend to prefer social facilities giving broad benefit, and to neglect productive investments which tend to benefit a few. (c) It will tend to prefer short term to long term benefits. Clearly, all of this may also at times be in conflict with a poverty or an efficiency focus. Such biases can be partly corrected through performance incentives – but this also raises the question as to how far it is legitimate to “second guess” local decisions.
- Production of simple Guides and Manuals is very important, both to ensure consistent local adoption of procedures and to facilitate national scale-up. However, these usually need an iterative period of trial and error (at least two years) before they are finalized. They also should include clear definition of the roles of various “institutions” in the process, and not only focus on technical tools.

- To a greater or lesser degree major challenges remain in all countries to: (a) link LG development or strategic planning of ISD with annual planning & budgeting exercises; (b) feed LG planning up into the planning and budgeting of deconcentrated sector departments.

6.5 IMPLEMENTATION

A few key lessons about implementation/production of ISD by rural local governments should be underlined:

- Generally, this aspect is too often neglected by development agency professionals, who sometimes assume that good planning is enough to ensure ISD.
- It appears from the case studies that the satisfactory resolution of the complexity of implementation modalities and agencies for ISD is a key challenge facing local governments. Distinguishing provision and production roles, types and agencies (including communities) for contracting, and ensuring adequate capacities for appraisal, design, costing, contracting, implementation, supervision and monitoring are problematic in all cases.
- Flexibility in procurement methods is often called for in rural areas, where private sector contractors are few and far between or unwilling to work. Sometimes a hybrid of force account and community-managed implementation is necessary (as in Nepal). The ability to be flexible, however, seems to vary with the overall institutional context.
- Generally, rural LGs face the problem of under-developed private sectors. This may imply the need not only to provide LG officials with training in contract and procurement management, but to do the same for contractors.
- Participation of the community at all stages of the planning and implementation process has been shown to improve the quality of design and construction of community-based schemes. Community implementation has been shown to be successful (e.g. in Bangladesh) but only for smaller, low-tech projects (some road projects in Nepal proved to be too large and complex for community production).

- With adequate technical and other support, local government-managed implementation can be more efficient – i.e. less costly than in other cases and can result in more timely completion and better quality of works (as in Cambodia and in Bangladesh).
- However, the capacity of the technical staff (usually at district or commune level) to be able to properly appraise, design, supervise and enforce infrastructure provision is a severe constraint on quality outcomes. This is compounded by a lack of capacity of local government to be able to call on or coordinate line agency technical resources for support to implementation (Bangladesh and Nepal). This has been resolved in Uganda by the provision of sectoral Technical Units to support local government. In the other countries, institutionalizing mechanisms to provide technical support for local government remains a challenge.
- Operations and maintenance remains problematic in many cases, despite evidence of local ownership. Much of this can be attributed to weak management skills, insufficient provision for recurrent costs and (in a few cases) to inadequate planning. For truly public goods and services, the fundamental problem lies with the inability of most rural LGs to collect sufficient revenues themselves. All of this points to the need to improve the articulation between capital and recurrent expenditure budgets – which none of the LDPs has thus far been able to adequately accomplish. It also points to the need for greater articulation between the planning and budgeting processes of different local levels, in the frequent case where the lower level makes the investment but the higher level “co-provides” by managing or otherwise supporting the facility. These last two problems affect health and education services particularly.

6.6 ACCOUNTABILITY

Some lessons on the accountability of rural LGs for ISD can be drawn:

- The main focus in all cases has been on promoting downward accountability, through participatory planning, and successfully extended to social audits and participatory performance assessment. Challenges still remain: (a) to reinforce accountability to the most poor and marginalized; (b) to improve communication

and accountability to a dispersed rural citizenry, and on more general aspects of LG business, beyond planning and budgeting; and (c) specifically to strengthen the feedback and accountability of individual elected councillors to their constituents. Development by local governments of communication strategies – including alternative media for the illiterate (e.g. local radio) - may help to strengthen this.

- Strengthening the horizontal accountability of local civil servants to elected LGs is problematic, except in situations such as the Ugandan districts where the former are under full control of the latter. Indeed the term “horizontal” is often a misnomer since civil servants are typically deployed to a level above that of the elected rural LGs in many cases (the Cambodia District Integration Workshops [DIW] are one interesting approach to this).
- Upward accountability of local government to the centre has been encouraged through the establishment of reporting systems and MIS at central level. Compliance with central policy and procedures has been encouraged through funding sanction. This too is an area where much more needs to be done, but where there are constraints inherent in the capacities of Ministries of Local Government or of the Interior – or equivalent central departments - as regards supervision of local government. One particularly problematic issue is the typically very weak capacity to ensure regular external audit – and audit follow up - of hundreds or even thousands of rural LGs.

6.7 CAPACITY DEVELOPMENT

- Generally, the Case Studies have shown that the “weak local capacity” mantra is often exaggerated, or is based on the false presumption that poor LG performance is due simply to inadequate or poorly trained staff. The case studies show that LG performance can be greatly improved – without changes in staffing or educational background – by a combination of learning-by-doing within a more enabling framework of procedures and systems, of funding availability with proper incentives attached, and of basic skills upgrading. Certainly, significant capacity gaps remain, indicating

the need for long term programmes and some element of supply-driven provision of core competencies tailored to local circumstances.

- Ideally a demand-driven capacity-building system should be developed, as was done under the Uganda LDP. However, in so doing several issues have emerged including: (a) it is by no means self-evident that local government units know what kinds of capacity-building they need. There must, then, be a supply-driven component, which provides LGs with a menu of essential CB activities, as well as optional (or locally specific) ones; (b) procuring high quality CB services is not always easy. Therefore, there needs to be some kind of pre-qualified list of potential suppliers made available to LGs.
- Direct training and mentoring has also made an important contribution to local government ISD in all four cases. Elected officials and staff of rural local governments are often faced with particularly acute capacity gaps, which are sometimes difficult to fill through recourse to the private or NGO sector. In devising sustainable “supply-driven” training and support mechanisms, Bangladesh and Uganda have indicated the value of ‘cascade’ and ‘peer’ capacity-building through training (based on centrally produced materials), mentoring and/or exchange of experience.
- A general lesson given the importance of capacity building to LG ISD is that central governments have a responsibility to provide rural local governments with access to the CB services that they need. This needs to be done in a way that is sustainable and permanent, rather than ad hoc. This presents a major logistical challenge – given the numbers of rural LGs involved and the turnover of elected representatives. It is similar to the upward accountability challenge referred to above.



Endnotes

¹ The poverty headcount index indicates the percentage of poor persons in the total rural or urban population. The ratio of the rural/urban indices therefore indicates how many times greater the incidence of poverty in rural as compared to urban areas is.

² Based on a sample of 7 of the 9 UPs which have undertaken the programme for three years.

³ Based on a sample of 6 of the 8 UPs which were suspended after the first year owing to poor performance, and were subsequently re-admitted.

⁴ Two UPs were suspended after the first year of the programme owing to poor performance, and have not been readmitted.



Appendix: Executive Summaries of the Case Studies

BANGLADESH

Local government in Bangladesh today is weak, and especially so in rural areas. The lowest tier of government, the Union Parishads, have limited resources, little revenue raising authority, and almost no influence on how the central government uses its resources in their areas. Union Parishads are dominated by the district and sub-district (Upazila) administrations. Education, health, nutrition, family planning, irrigation, agricultural services, and other services are generally managed directly by the central government officers.

The Sirajganj Local Governance Development Fund Project (SLGDP) project aims *to promote decentralized participatory planning and local governance in Bangladesh*. It demonstrates the potential benefits for service delivery and poverty reduction of decentralising funds to the Union Parishad level, and promoting local infrastructure and service delivery processes that involve participatory planning and capacity building. The project is being implemented in Sirajganj District, and combines the following components:

- The provision of funds directly to the Union Parishad level on an annual block grant basis. These funds are controlled and managed by the Unions.
- The promotion of participatory planning processes at ward level as part of wider improvements in accountability and governance;
- The provision of support and incentives for the Union Parishads to improve their performance and accountability;

In this case study, the nature of innovations associated with the decentralized service delivery arrangements of SLGDP are analysed and directly compared with other ISD arrangements prevailing at Union Parishad level. The impact of such ISD arrangements upon service delivery are considered.

INNOVATIONS AND ISSUES

Comparisons are made with the **Annual Development Plan** grant (a model of weak decentralization in which the Union Parishads have limited ISD selection and implementation responsibilities with responsibility for financial decision making at the Upazila level), and the **Special Relief Grants** such as Food for Work (which represent a more centralised, patronage style model of provision directly controlled by the MP and local party cadres). Innovations are described in relation to finance, participatory planning, implementation of ISD, and accountability.

(a) Finance

The SLGDP provides funds directly to the Union Parishad level on a block grant basis. These funds are controlled and managed by the Unions. The grant seeks to mirror the standard ADP Grant in both size and the allocation criteria used. The key benefits associated with SLGDP include the following:

- Greater certainty in the allocation levels for the grants (ADP grants can be prone to political manipulation).
- Performance based funding (by which those UPs which have performed well in the previous year are eligible for additional funding in the next year). This has been shown to incentivise performance improvements.
- The timing of the SLGDP grant allows the UPs to undertake a better budgeting processes (the UPs usually receive notification of their ADP allocations in October, whilst annual budgets are prepared in June).
- The flow of funds directly to the UP has helped to move the focus of decision making about scheme selection and implementation to the local level.

(b) Participatory Planning

The promotion of participatory planning processes is a central dimension of the SLGDP project, both as a means of improving the efficiency and effectiveness of service delivery as well as serving a wider objective of strengthening civil society and democratic processes. There is **no prevailing culture of participation** within the Union Parishads. The SLGDP has

hence supported participation through **Upazila Project Co-ordinators** (full time project staff) and a **Union Facilitation team** (volunteers from the community). The scheme has established community planning committees at the Union, Ward and Scheme levels. These committees are led by the UP members and are formed in an open and inclusive manner. Participatory planning processes are then undertaken in each ward and also at Union level. The **ward level participatory process** is usually a **two day event**, generally involving between 120 and 200 people. In most unions, the attendees are divided into three or four groups (generally with a separate planning group for women) for consideration of problems and possible projects. Specific activities undertaken include: mapping, problem identification, prioritisation of problems, scheme identification, scheme prioritisation and short listing.

The SLGDP process has not to date become fully institutionalised within the UPs, all of which continue to manage the ADP planning processes without participation. In part this reflects the perception amongst some UP members that complete transparency is not in their political or personal interests.

(c) **Implementation**

The SLGDP implementation processes mirror those of the ADP. Technical designs and final approvals are obtained from the LGED (line dept) engineer and schemes require approval from the UDCC. Government regulations that **contracts of more than TK 50,000** (US\$830) must be tendered to commercial contractors also apply. Union Parishads seek to avoid the use of commercial contractors because their control over implementation of works is more limited, and because levels of corruption are perceived to be higher and quality levels lower.

All three ISD arrangements (SLGDP, FFW and ADP) utilise **committees** formed to manage and monitor implementation. There are, however, significant differences in the manner in which these committees function and in how implementation is undertaken. Under SLGDP levels of community participation and monitoring are higher, and there are stronger institutional arrangements for O&M. These impact positively upon the quality of ISD.

In both ISD arrangements the **LGED engineer** plays an important role in cost estimation, technical assurance and final certification. Under all

ISD arrangements this can be problematic both in terms of technical quality and corruption.

(d) **Accountability**

Improving accountability is an objective that underpins SLGDP's innovations. It is closely linked to the promotion of participatory processes, as well as to the establishment of a structure of community organisations that play an active role in the identification, selection, construction and maintenance of new development schemes. SLGDP, however, has also undertaken a range of other innovations that have further served to strengthen and institutionalise greater accountability:

- ⊙ **Performance Assessment** - An annual performance review is undertaken in the manner of a Public Report card. This assesses the overall performance of the UP and is also linked to the release of incentive based funds;

- ⊙ **Standing committees** - Such committees are a statutory obligation. SLGDP has sought to make them operational and has worked to achieve a clearer definition of their roles and responsibilities;

- ⊙ **Scheme Notice boards and public information** - SLGDP has supported better public information on schemes and UP activities. Contingency funds (for information provision and travel costs) are allowed for in scheme estimates.

- ⊙ **Scheme assessments and participatory planning reviews** - The project has developed these accountability mechanisms which have a project specific focus.

PRO-POOR OUTCOMES

The study has analysed the **relative efficiency, effectiveness and quality of different institutional arrangements** for local infrastructure and service provision. An emphasis has been placed on a comparison of the impact of the more innovative arrangements for decentralized service delivery under the UNCDF sponsored Sirajganj project with the less decentralized mechanisms of the Annual Development Plan grant. A more limited form of comparison is made with systems of provisioning under the various relief schemes such as Food for Work and Test Relief etc. In each case the study team attempted to triangulate quantitative data with qualitative evidence from a cross section of stakeholders.

Quantitative data was obtained through the **analysis of the standard design schedule of rates** and, estimates at Upazila level and **scheme expenditure at Union Parishad level** alongside the valuation of assets, based on field inspection. At the same time **qualitative data** was gathered through **semi structured interviews** and **focus group discussions**.

It was understood that an analysis of comparative efficiency levels under different ISD arrangements expressed in terms of price alone will not reflect real differences in the nature of ISD. Given this, the study team has adopted an audit approach to efficiency measurement based upon a comparison of the price and value of assets produced under different ISD arrangements. **Technical assessments** in the field produced **estimates of the value of works undertaken** in relation to estimated or bid prices (depending on the type of service arrangement) and any shortfall or gap was assumed to represent a ‘shadow cost’ of provision. At the same time the study has attempted to capture differential levels of effectiveness based on an assessment of the appropriateness and usefulness of individual schemes as well as differential levels of sustainability based on analysis of overall scheme serviceability and durability.

(a) Finance

The SLGDP grant approach has a number of beneficial outcomes. There is greater predictability in fund allocation, which allows the UPs to engage in medium term budgeting and planning processes. In addition the funds release mechanisms result in a greater degree of autonomy and greater UP control over budget allocation and fund management. The improved timing of fund release also allows the UPs to undertake a proper budget preparation process. A final difference between SLGDP and ADP is greater transparency in the fund allocation process. There has been a reduction in the scope for the diversion of funds either between UPs or out of UPs altogether.

(b) Planning

The differential level of participation in planning and budgeting under the different ISD arrangements is quite marked. Under SLGDP arrangements there are typically around 1,100 people involved in each UP in different aspects of the planning process. The main outcome arising from this is that **planning** is more **demand led**. This has undoubtedly served

to ensure that projects are broadly more pro-poor.

In contrast to SLGDP's scheme selection approach which allows freedom in the types of schemes selected, ADP funding rules do not allow a UP to allocate more than 40% of its total allocation on roads and other communication infrastructure. Other ceilings relate to education, agriculture and physical facilities.

Another dimension of people's participation is **greater value addition** to many of the schemes improving the quality of the final output. Because they have been involved and recognise the scheme as a priority, they are often more willing to provide additional inputs so as to improve the quality beyond the estimate,

(c) Implementation

The impact of decentralized ISD arrangements on scheme implementation is perhaps the most marked of all the impacts observed in the study. It was clear that there were a number of problems with the ADP schemes relating to numerous instances where there have been **attempts to save expenditure** through the use of inadequate and inferior materials, the lack of adequate labour and poor supervision leading to serious shortcomings in both the execution and quality of works that will have a long term impact on overall asset sustainability. For example, field verification of culvert construction confirmed that SLGDP schemes were capable of producing very **substantial differences in use of materials, labour and other inputs** and strict adherence to technical specifications as regards slab thickness, wall footings, plastering, shuttering and finishing. Moreover, these structures were confirmed to be able to withstand double the load of an ADP structure with a minimum lifespan of 25-30 years or between 3-5 times that found under ADP provision.

The very **high quality of SLGDP works** was reported, in part, to be a function of the implementation and supervision process and in part a function of the budget that provided sufficient funds to produce a quality of structure well above that specified. Meanwhile, a higher budget allocation for a smaller structure under ADP provision resulted in a far inferior product well below even the minimum technical specification demonstrating a high degree of inefficiency on the part of ADP schemes compared to SLGDP. A comparison of the efficiency, effectiveness and quality of **minor road schemes** under different ISD arrangements broad-

ly conforms to the above findings and section 3.3.3 sets out in detail some of the technical engineering deficiencies of the ADP approach and their wider impact upon the nature of infrastructure.

Overall, the study found a 37 per cent average differential between the value of the new asset and “book value” or price under ADP contracted arrangements. There was an average 75 per cent reduction in the life of the asset under ADP contracted arrangements and a 35 per cent shortfall in the time required for completion of works to specified standards. Moreover SLGDP schemes were shown to have an average 30 per cent value addition arising from mobilisation of community resources.

(d) Accountability

The case study has shown that accountability mechanisms under the ADP are weak. The main planning mechanisms are restricted to a handful of Union members on behalf of some 8,000 households. This contrasts with the active involvement of people under SLGDP, and associated improvements in general levels of awareness.

A major accountability initiative under SLGDP is represented by the **Participatory Performance Assessment concept**. This exercise is conducted in an open public forum where members of the community are invited to comment on and question UP performance. The assessment results in a grading of performance linked to scheme eligibility for the following year, and has been shown to successfully incentivise improvement. Overall a major benefit of this process is the dissemination of information on the linkages between tax compliance, collection and service delivery, and UPs report that one direct benefit of this process is a greater willingness on the part of ordinary citizens to pay their taxes (because they have a better understanding of how their taxes are being used).

Post completion **Scheme Assessment Reports** under SLGDP also provide a formal mechanism for improving accountability through which a technical inspection is undertaken on scheme completion and any deficiencies and problems are highlighted for immediate remedial action or as a future lesson.

Standing Committees have also had some impact on improved accountability. Their **role and impact** is limited by the fact that many have only recently been formed, and control of services often rests with

government line departments at Upazila level. As such their only direct influence on service delivery agencies is through liaison and advocacy. Nonetheless the Standing Committees have in some cases begun to take up some **local initiatives to improve services in their areas**. A number of forestry committees have undertaken tree planting along roadsides through leasing out land. In one UP the Water and Sanitation Committee had undertaken a survey of access to sanitary latrines and was promoting access subsidised sanitary wares.

LESSONS LEARNED

Overall the study has shown the **direct and positive impacts of the SLGDP upon infrastructure and service delivery**. This demonstrates what can be achieved in Bangladesh using innovative mechanisms which empower local government institutions. This can serve to inform and influence GoB policy nationally. Wider replication will, however, require an understanding of the **policy context** and of the **difficulties and barriers to the more effective implementation** of the SLGDP approach.

Bangladesh has a highly constrained institutional and policy framework guiding the activity of local government. **Union Parishads have limited operational responsibility**, resourcing and capacity, and are dominated by sectoral agencies especially operating at the district and Upazila level, as well as by the political influence of Members of Parliament. There are also systemic constraints towards increasing the influence of UPs. Line departments are upwardly accountable, and often the Upazila level officers themselves also have limited influence on resource allocation processes (which are decided centrally). Moreover there is generally very limited co-ordination between line departments, and no coherent form of spatial planning, which might promote co-ordination. Finally attitudes and the administrative culture does not recognise the value of the contribution of the UPs.

It is also clear that decentralized approaches such as SLGDP need to be undertaken in conjunction with considerable training and capacity development together with the development of accountability mechanisms.

The participatory planning process has been widely recognised as **improving scheme selection, implementation and O&M**. Currently, however, the process is not underpinned by a sound base of **informa-**

tion on the physical and social conditions of communities and especially of the poor. And whilst both the GoB and SLGDP have promoted the objective of greater **participation of women**, in practice they are often only passively involved. **Changing attitudes towards participation** and countering other vested interests is also difficult. It is notable that even in those UPs implementing the SLGDP most successfully the ADP planning process has not also been taken up in a participatory manner.

In relation to ISD implementation, the **TK 50,000 limit on community contracting** has a **distorting effect** upon infrastructure implementation resulting in a preponderance of smaller schemes. The engineering estimate process also remains weak, failing to provide the required technical screening, and often resulting in sub standard works. The quality of schemes undertaken by commercial contractors is also often poor, and mechanisms to improve accountability and redressal are required.

In relation to accountability, the challenge that remains is to **institutionalise** these processes throughout all the activities of the Union Parishads. In part this requires a process of **changing attitudes towards accountability**. In the context of a time limited project this is difficult.

A core issue for the wider replication of the SLGDP programme is the **institutional capacity** within deconcentrated government departments to **support the development of the Union Parishads**. The government structures that should take a lead in this would include the Office of the Assistant Director, Local Government (ADLG) at district level, UNO at Upazila level and Assistant District Commissioner (General) all of whom have a mandate to supervise and support local government. Since UNOs are overstretched the main resource for capacity development would have to come from the ADLG at district level who is a more junior officer in cadre terms to the UNO. The ADLG office would have to be substantially enhanced in terms of its potential for capacity development. This could be addressed through a combination of donor support as envisaged under the proposed **UNDP Strengthening Local Governance Project**, perhaps in combination with a smaller amount of funding under ADP to support a block grant component in scheme provisioning. Another option would be to assign dedicated local government staff on contract at Upazila level for a defined period until such time as UPs were familiar with processes and able to implement works based upon the SLGDP model.

OVERALL

Whilst many challenges remain, there is such clear evidence of **enhanced cost effectiveness, value added and sustainability under SLGDP ISD arrangements** that a strong case could be made for GoB to consider earmarking at least a part of the current ADP allocation for devolved block grant funding along SLGDP lines. Technical assistance to support the implementation of such a model could be considered as part of a broader capacity development initiative for local government. Such an initiative, for example, is under active consideration by UNDP at present with a useful focus on strengthening the role of the ADLG office to coordinate training at UP level.

CAMBODIA

Decentralization reforms in Cambodia are only two years old and the system of decentralized planning and financing of local development is still in its infancy. The major political development initiated with the 2002 election of Commune Councils, is yet to be followed by a number of fiscal and administrative reforms that would strengthen the capacity of communes to deliver services and fight poverty.

Such capacity is currently constrained by a still embryonic local administration and by system-wide problems that include gaps in the regulatory framework, limited financial resources, lack of inter-communal arrangements that address the viability of individual jurisdictions, lack of an effective provincial system of state support and supervision, and retards in the deconcentration reforms that could provide for more responsive and cooperative inter-governmental relations between communes and the national sector agencies most concerned with pro-poor services delivery.

In spite of the above, two years into their first mandate, the Councils have started to deliver services, helped by the devolution of a minimum of freely programmable resources through the Commune/Sangkat Fund (CSF), a fiscal transfers facility supported by domestic and external contributions, and by the adoption of a statutory process of Commune Development Planning (CDP), jointly regulated by the Ministries of Planning and Interior. Through District Integration Workshops, a formal step in the CDP designed to harmonize local-level and provincial sector planning, communes have also been able to access some of the resources of programs funded and managed by aid agencies, provincial departments and NGOs.

The focus of communes' action has been on the development of small-scale infrastructure, whose financing absorbed all CSF resources in 2002 and 2003. In both years, over 60% went to rural transport projects (roads, small bridges and culverts). In 2003 the second most important category of projects (absorbing 16.3% of the CSF resources) included the construction and rehabilitation of canals and other irrigation structures. These two categories of investments, on which three quarters of the CSF resources were spent, reveal the strong local preference for economic infrastructures. As for the remaining quarter of CSF resources for social infrastructures, most went to improve access to drinking water and

build school facilities, with only a minor share going to improve health care facilities.

This focus on economic infrastructure has been criticized as the product of a too narrow “roads and canals mentality”, but whether or not Commune Councils should invest more in other types of activities remains at present open to question. Councils could certainly do more for the delivery of education and health services, but this largely depends on the development of clear sector policies and related inter-institutional arrangements. Councils could also be (and somehow are starting to be) more active in delivery of traditional municipal services (urban transport, water supply and sanitation, solid wastes, markets, etc.). But again this will depend on how urban management responsibilities will eventually be structured and the mandate of Sangkats will be defined. Finally, some would like to see more action in the promotion of local “economic” development, beyond the Councils’ investments in transport and irrigation. But given their current institutional weaknesses, the risk is high that the Councils would not be guided by a public policy rationale in their support to private ventures (funding provision of buffaloes, fertilizers, support to enterprises, etc.) and that benefits from this kind of projects would be easily captured by the relatively wealthier and more influential local people with little or no effect on poverty reduction.

On the other hand, while systematic evaluations are still lacking, recent studies based on sample surveys, have concluded that commune residents, including the poor among them, are generally satisfied with the outcome of the local planning and resources allocation process, and expect to benefit from the commune funded roads, irrigation and schools projects, which then seem to reflect actual needs and a broad-based local demand. A concern, however, in terms of allocative efficiency, is the inadequate attention to maintenance, which may threaten the sustainability of locally created assets. Addressing this issue may require additional regulations specifying “mandatory development expenditures” that communes must undertake to maintain assets for which they are legally responsible, before embarking on any new construction.

As to the efficiency with which communes’ resources have been used, systematic evaluation data are not yet available. However, a recent study compared the actual costs of a large sample of commune-funded construction projects with “reference prices” based on average market costs

of materials and contractors' overheads, and other agencies' estimates and found that the costs of commune projects were generally lower than the reference prices and those incurred by other agencies. Instead of being inflated to facilitate corrupt practices, as some had suggested, commune-managed contracts prices were possibly failing to reflect the true costs of the works, resulting in pressures to "cut corners" during implementation and produce lower quality outputs. Indeed another recent survey of a sample of 13 communes suggests that quality problems in commune-managed infrastructure projects may be widespread; potentially reducing any productive efficiency gains derived from local competition and lower contract costs. A number of reasons seem at play in lowering outputs quality. Delays in transfer of CSF resources, (as those actually experienced in 2003), may create cash flow problems for contractors, compromise construction schedule and result in inappropriate wet-season operations. Also lack of communes' compliance with contractual obligations to provide labor or cash contributions may be used by contractors to lower their effort and deny responsibilities. Commune Chiefs are still uncertain about their powers and their responsibility to stop payments when faced with unsatisfactory performance of the contractors. They rely entirely on the engineering services of provincial/district technicians whose accountability to the Councils remains weak and whose ability to provide the required contracts administration services may be overstretched. "Social auditing" by users groups and project beneficiaries of the performance of contractors and services' providers could help to enhance the quality of the produced outputs, but its practice has been sporadic and not well established.

Much remains to be done to enable communes to play a greater role in service delivery and poverty reduction. The Government's commitment to increasing and predictable transfers via the CSF must be confirmed, reassuring communes that the difficulties experienced in 2003 are the exception and not the rule. Local financial management regulations should be revised or developed to encourage spending in local assets maintenance and other recurrent costs associated with services delivery. The experimentation of innovative intergovernmental partnerships for delivery of services in the health, education, agriculture and rural development sectors must be initiated as soon as possible with credible commitment by concerned Ministries as to their evaluation and mainstreaming. The flexibility of provincial departments to respond to

commune requests in the frame of District Integration Workshops, must be enhanced by deconcentration of allocation decisions. And finally the government should invest in a provincial/district system of support and supervision to the communes, adopting some of the successful practices and arrangements implemented under the Seila programme and providing this system with a firmer footing than the current exclusive reliance on external aid.

Ultimately, enabling the Communes Councils to become significant services providers in the eyes of their local constituencies will also help realize the political goal of the Cambodia decentralization reforms: establishing a democratic State presence at the local level.

NEPAL

Background

Nepal's system of local government in rural areas comprises two levels – Villages, for which the relevant local executive body is the Village Development Committee (VDC) and districts, with District Development Committees (DDCs) as their executive organs. The country is made up of 75 districts and almost 4,000 villages. The powers, responsibilities and functions of these LGs is defined by the Local Self-Governance Act (LSGA) enacted in 1999; a range of regulations and policy initiatives (notably the devolution of some health, education and agriculture functions) complete the basic institutional framework provided by LSGA.

The Decentralised Financing and Development Programme (DFDP), jointly funded by UNCDF and DFID, currently operates in 20 districts – eight districts since programme start-up in 2001, and 12 new districts since 2003/2004. DFDP provides DDCs with access to annual block grants, the use of which is largely discretionary – although limited to capital (rather than recurrent) expenditure. Eligible investments include: the construction/rehabilitation of schools, roads, bridges, health posts, community buildings; improvements to water supply systems (for both drinking and irrigation purposes); natural resource management initiatives; etc. The available annual funding pool is roughly US\$ 1.7 million, allocated among districts (since 2003/2004) on the basis of an HMGN-endorsed formula.

Beneficiary districts use their capital grants from DFDP to fund micro-projects identified through a participatory local planning process (LPP), directly supported by other donor-funded programmes (such as UNDP's PDDP/LGP). In principle, micro-projects are championed by "socially mobilized" community organizations (COs), endorsed by their respective VDCs and then screened, prioritised and finally selected at DDC level. Provisional approval (for inclusion in the DDC's annual budget) is made by district councils; final approval of selected micro-projects is subject to endorsement by DFDP.

Projects that exceed a given cost (roughly US\$ 7,000) or that provide benefits to the citizens of more than one VDC are classified as district-level – such district-level projects are not to exceed 40% of the total

DFDP allocation. DFDP funding is conditional upon the mobilization of matching contributions by DDCs, VDCs (but not in the case of district-level projects) and local communities (whose contribution is usually in kind, rather than in cash).

Innovations and Issues

DFDP has introduced a number of innovations into LG ISD and, through its implementation, has raised a number of issues about existing practices and procedures for ISD.

(a) Finance

In terms of finance, DFDP has:

- Introduced a system of regular, predictable and dependable fixed annual grants, aimed at providing LGs with the resources to fund ISD on largely discretionary basis. This is in contrast to the standard HMGN method for block grant allocations to DDCs, which is often irregular, unpredictable and subject to unreliable disbursements;
- Although initial grants were made to DDCs on an equal shares basis (each DDC receiving the same grant, irrespective of population size, fiscal need or other criteria), DFDP is now moving towards a formula-based allocation system that factors in population size, poverty, surface area and relative cost. Whilst the current formula, endorsed by HMGN, is far from satisfactory, it represents a step in a more equitable and rational direction;
- DFDP retains *ex ante* controls over the micro-project selection process, in contrast to HMGN practice (whereby DDCs and VDCs are largely left to their own devices). This may prove problematic and certainly appears to disrupt the planning-to-budgeting process;
- As mentioned above, DFDP funds are only made available if LGs and communities mobilise matching contributions. This is in sharp contrast to HMGN transfers, which are not conditional upon any kind of co-funding arrangement;
- DFDP funds flow through DDC-managed accounts and are thus more or less subject to HMGN financial management regulations;

- The ear-marking of 20% of DFDP funding for focused projects, for which the primary beneficiaries are expected to be women and disadvantaged groups (DAGs), is a major innovation in the Nepali context. Implementing this has not proven easy, but early experience has allowed DFDP to improve its definition of focused projects; DDCs are now demonstrating a clearer understanding of this;
- Another significant innovation has been the technical assistance window (upto 6% of annual block grants), which has allowed DDCs to recruit additional staff for the purposes of design, costing and technical supervision of works;
- Finally, DFDP (along with DANIDA) has provided support for policy reform in the fiscal decentralization area. Initial support has concentrated on better defining expenditure assignments, on capacity-building for LBFC (Local Bodies' Fiscal Commission) and on establishing performance-based assessments (with consequences for block grant allocations).

(b) Planning

Although DFDP does not include an explicit planning component, its implementation has raised several major issues linked to the existing local planning process:

- The need to “widen” the planning process so as to allow all VDCs within each district to propose micro-projects for DFDP funding, thus being more faithful to the spirit of LSGA;
- The limitations placed upon LG planning by the prescription that micro-projects must be identified/proposed by community organizations (COs). COs may not be well-placed to identify public goods – and this has raised questions about how the LPP should operate;
- The need to strengthen “downstream” aspects of the planning process (appraisal, screening, prioritisation, design and costing, etc.), and not just the participatory identification of needs;
- The likelihood that much of the LPP has been subject to elite capture, which has proven difficult to avoid in rural Nepal where traditional social elites remain politically dominant.

(c) Implementation

With regard to the actual implementation of micro-projects, DFDP has innovated and raised issues in a number of ways:

- Given the difficulties of attracting private sector contractors to work in remote rural areas and a widespread dissatisfaction with existing procurement arrangements (and corrupt outcomes), DFDP-funded micro-projects have been exclusively implemented by local user committees/groups (UCs/UGs). Whilst this has not been particularly innovative in the Nepali context, it may provide valuable lessons for other countries;
- UCs/UGs, although capable of implementing many types of micro-project, do have their limitations, especially for more technically complex investments (e.g. roads, bridges). In addition, DFDP experience shows that UCs/UGs need considerable technical backstopping from DDCs;
- DFDP has provided UCs/UGs with capacity-building support, particularly for book-keeping and financial management;
- Despite efforts to ensure adequate operations and maintenance arrangements, O&M remains a major issue in DFDP.

(d) Accountability and Transparency

DFDP has introduced two important innovations with regard to accountability and transparency:

- DFDP has tried to ensure that as much information about annual grant allocations to DDCs is made publicly available. The programme has also encouraged DDCs to make public decisions made about micro-project selection;
- During the implementation phase, DFDP has insisted upon an ongoing social audit process – all micro-projects have signboards (indicating their designation, budget, and the UC/UG responsible for implementation); UCs/UGs keep project books (recording all relevant information, including costs, about project implementation); and disbursements are conditioned upon public meetings at which progress in implementation can be discussed.

Pro-Poor Outcomes

(a) *Policy orientation*

In its overall configuration, DFDP is explicitly designed to be pro-poor by:

- Being limited to support in rural areas (municipalities are deliberately excluded), where the largest number of the Nepali poor live;
- Ear-marking funds for women- and DAG-focussed projects. Women and DAGs are generally the poorest people;
- Making larger per capita allocations to poorer districts (measure in terms of their HDI).

(b) *Planning outcomes*

The range of micro-projects funded through DFDP has been considerable – and is (by all accounts) more diversified than the usual investment LG portfolio. This would tend to indicate a greater degree of inclusiveness in the planning process. Altogether, 677 micro-projects have been planned under DFDP – and include items such as roads, schools, irrigation schemes, water supply systems, biogas toilets. Such investments are potentially capable of having a pro-poor impact.

Women- and DAG-focussed projects do appear to have been specific to those social groups. Implemented focussed projects are dominated by drinking water improvements and irrigation schemes, followed by biogas/toilets. This is very different to the overall portfolio and tends to indicate a different targeting process.

(c) *Production and management outcomes*

The UC/UG implementation option appears to have had some positive outcomes. Evidence suggests that UCs/UGs are less prone to “leakages” (and thus more efficient than the contractor option, widely thought to be corrupt). DFDP’s insistence upon greater transparency in micro-project implementation - through project signboards, project books and social audits – also appears to have paid dividends.

However, UCs/UGs may be less satisfactory when it comes to the tech-

nical quality of infrastructure – despite DDC backstopping (which is, in any case, difficult in remote areas). This is especially so for more complex projects. There is also some evidence that the quality of ISD may have been compromised by systematic under-funding – a result of low per capita allocations as a whole, and the tendency for DDCs to “spread” funds thinly so as to cover as many VDCs as possible.

UC/UG implementation is probably unavoidable in much of rural Nepal – not only because the private sector is under-developed in such areas or has few incentives to engage in small contracts, but also because widespread insecurity (resulting from a major Maoist-inspired insurgency) has made many rural areas of limits to all but local people.

O&M arrangements remain problematic – and may thus compromise the sustainability of DFDP-funded infrastructure investments. Evidence suggests, however, that O&M arrangements for smaller infrastructure items (such as water supply systems or irrigation schemes) are better than those made for larger items (e.g. roads, bridges).

Lessons Learned

(a) Sectoral and functional issues

The experience gained through DFDP provides a number of sector-specific lessons:

- Roads and transport infrastructure have proved problematic areas for LGs. The need for these kinds of investment is self-evident, but the capacity of LGs to plan, implement, operate and maintain them is limited. On the basis of DFDP experience, the role of LGs in the provision of transport infrastructure needs to be carefully thought through. The lesson here is that subsidiarity has its limits.
- Educational infrastructure appears to be within the capacity of LGs to implement, but the issue of the recurrent costs associated with schools remains problematic. Despite a deliberate policy of education sector devolution in Nepal, the overall situation is confusing, with expenditure assignments being especially unclear. The lesson here is that devolution of sector functions must be carefully thought through and then properly integrated into the LPP;
- Water supply and small-scale irrigation investments appear to have

been relatively well-managed. This would appear to be linked to both traditional expertise in managing water and to the relatively small and discrete public served by such investments. The lesson to be learned is that where ISD is small-scale and impacts upon a small and well-defined community of users, it is clearly appropriate for local level planning, management and implementation.

(b) *Financing lessons*

A key, and very simple lesson to be learned from the Nepali experience, is that injecting funds into the LPP is, of itself, insufficient. The TA window has helped, but many improvements could be made, both in terms of procedures/methods and skills/capacities. Capacity development, in the widest sense of the term, must accompany fiscal decentralization.

DFDP also shows that ring-fencing can work – the 20% allocation for women- and DAG-focused projects appears to have paid dividends in terms of pro-poor outcomes. However, such ear-marking needs to be well thought out and clearly understood by LGs if it is to achieve its policy target.

(c) *Planning lessons*

DFDP shows that ISD planning – if it is to deliver equitable and sustainable outcomes – must be more than just the participatory identification of needs. Much more is involved – appraisal, transparent and rational screening and selection, sector involvement, design and costing, etc.

(d) *Production/implementation of ISD*

Another important lesson from DFDP is that – under certain circumstances – the UC/UG option can replace the more orthodox private contractor/tendering option. Indeed, in remote rural areas, UC/UG implementation may be the only option. There are plenty of lessons (both positive and negative) to be learned about this from DFDP - UC/UG implementation is best-suited to simple projects, requires adequate technical backstopping, capacity-building, and so on.

Finally, DFDP shows that promoting adequate O&M is easier said than done and that a range of techniques and approaches are needed

– such as incentives for establishing O&M arrangements, funding conditionalities based on evidence of O&M costs being budgeted for, and the institutionalisation of maintenance planning methods.

(e) *Accountability and transparency*

DFDP's use of signboards, project books and social auditing has shown that project implementation can be made more transparent – and that this probably leads to greater efficiencies through fewer “leakages”. However, transparency based on written media/methods has its limitations, particularly when the poorest are usually the least literate – a lesson learned, then, is that more oral (or visual) methods of promoting transparency may be needed in rural areas if they are to allow the poorest to voice themselves and to benefit.

UGANDA

This case study provides an overview of a Local Development Project, which supported rural infrastructure service delivery in Uganda. The DDP/KDDP was financed to pilot the provision of rural ISD in five districts. It built on the experiences and successes of the Peri-Urban Infrastructure Project (PUIP), which focused on the development of participatory urban service delivery mechanisms and discretionary funding provided to communities¹. Chapter one gives a review of the national policy and institutional set-up for decentralisation and local infrastructure and service delivery by LGs in Uganda. It also discusses the emerging issues, constraints and opportunities in decentralizing ISDs in rural LGs. Chapter two gives an analysis of the case research based on the experiences of the District Development Programme (DDP)/Kotido District Development Programme (KDDP) which was a US \$ 14.5 million pilot in the districts of Arua, Jinja, Mukono, Kablae, and Kotido. The section reviews the innovations in ISD in the rural communities as introduced by the DDP/KDDP, the outcomes of these innovations regarding the pro-poor, and the lessons learnt in decentralizing ISD in rural areas in the five core sectors of primary health, primary education, water and sanitation, rural roads and agricultures services. Chapter three highlights the problems/challenges and the achievements in rural ISDs realised under the DDP/KDDP.

Chapter 1: Policy and legal context:

The DDP was implemented in the context of Uganda's newly adopted decentralised policy framework. The Constitution 1995 and the LGs Act 1997 transferred political, administrative, and fiscal powers from central government to local councils. It made LGs responsible for the delivery of the bulk of services and accountable to their constituents. This policy framework promoted popular participation and empowering local people to make decisions about their own development priorities. The devolution was to be governed by the principles of subsidiarity and integration with non-subordination.

¹ PUIP piloted a demand driven service delivery in four municipalities where a communities had control over a given amount of resources for the provision of community selected ISD. Projects included: water, access roads, drainage and solid waste management.

In terms of ISD, the Constitution of 1995 and the LGs Act of 1997 devolved service delivery mandates to LGs while line ministries retained the mandate for setting national policies and standards regarding the delivery of those services. The five sectors of primary education, primary health care, water and sanitation, rural roads, and agriculture extension, which are the main focus of this case study, were devolved to LGs. To facilitate LGs to fulfill this mandate a number of local financing powers were also devolved to LGs. LGs were allowed to levy, charge, collect and appropriate fees and taxes from rents, rates, royalties, stamp duties, personal graduated tax, cess, market dues, and fees on registration and licensing for provision of ISD. LGs were also given autonomy to plan and budget through a participatory bottom-up process where priorities of lower LGs were to be incorporated in the higher LG plans.

The local revenue sources were to be augmented with statutory transfers from central government through: unconditional, conditional and equalisation grants. Sector specific ISD were to be financed through conditional grants, which were to be provided to LGs through sectors. The equalisation grant was meant to raise the service delivery standards for those lagging LGs.

The decentralisation policy adopted by government was therefore a major policy reform, which changed the centre-local relationship in terms of ISD. The DDP was to be implemented in this new policy framework as the administrative system to support decentralisation. LGs had inadequate fiscal resources overall and local discretion to fulfill the decentralised ISD mandates. They had inadequate capacities to make realistic plans and budgets. Transfers from central government were insignificant as the LG Act was hardly one year old and most of the provisions were not yet implemented. Most ISD in LGs were being implemented through donor project financing not discretionary development budget support. There was therefore considerable skepticism about the potential of the DDP/KDDP to achieve its objectives of instituting decentralised participatory planning and financing mechanisms. Despite these challenges, the experiences from the PUIP pilot gave the MoLG the opportunity and the determination to pilot the DDP and test the feasibility of devolving ISD to rural LGs in the existing legal and policy framework.

Chapter 2: Innovations and lessons through the DDP/KDD.

To ensure the success of the DDP/KDDP in rural ISD, government empowered the communities and their rural LGs through a participatory Panning, Allocation, Investment and Management System (PAIMS). The PAIMS had two instruments for piloting rural ISD namely: the Local Development Fund (LDF) and the Capacity Building Fund (CBF). The pilot districts were chosen to reflect the economic and social diversity in the country.

The innovations: To ensure success, the following innovations were piloted under the programme: a) formulae driven resource allocation, b) cascading development grant to the various levels of LGs, c) performance based minimum conditions for access of funds, d) discretion in use of funds for ISD, e) demand driven capacity building, f) thematic monitoring & evaluation review, g) policy case studies, h) mentoring concept, i) participatory planning, f) communication strategy for transparency and accountability, k) local revenue enhancement, and l) policy briefing series.

Financing of ISD under the DDP/KDDP was formulae driven. This was a departure from the usual approach where ISD at rural areas is financed based on needs. The formulae approach ensured equity and provided the necessary transparency where all the stakeholders knew what was due to a LG in a given financial year. Under the programme the concept of cascading the development grants to all levels of LGs for ISD was also piloted for the first time. The amount made available at each level of a LG was made known in advance through a formula driven allocation. However the access of this fund was based on each LG meeting an agreed access criteria. The Minimum Conditions and Performance Measures assessment were conducted annually in a transparent manner and the results made public.

Once a LG qualified, funds would be disbursed on a quarterly basis as a discretionary development budget support. There was initial concern from line ministries and donors that these funds would not be used to respond to poverty alleviation requirements, when in reality, the types of LG ISD investments were not only pro-poor, but were within the five priority programme areas of the Poverty Eradication Action Plan (PEAP) of government, namely primary education, primary health care, water and sanitation, rural roads, and agriculture extension. Only 2% of the discre-

tionary funds were invested outside the five priority areas. This was mainly in the construction of public administration office block. In addition, the unit cost per investment was much cheaper by 20% - 50% compared to similar projects implemented outside the DDP/KDDP modality.

Early into the DDP/KDDP it was observed that: The linking of funds access to performance greatly improved the capacity of the pilot districts in planning, financial management and accountability. Discretionary development budgets also stimulated LGs and communities to be more creative and 'own' the investments. Funding through a performance driven approach encouraged competition and improved LGs compliance to standards and regulations.

Coupled to the discretionary investment funds, there was a demand driven capacity building fund provided to all the LGs to address their capacity gaps, which would have been identified through the assessment process. Through the demand driven capacity building approach LGs were able to train a total of 71,580 beneficiaries, which included councillors, CSOs, investment committees, private sector, school management committees, and technical staff. The training covered a wide range of topics. Forty six percent (46%) of the total beneficiaries of the demand driven training were women. The demand driven capacity building gave the LGs the flexibility to build their unique capacity gaps. However to compliment a demand driven capacity building, there was also a supply driven capacity building covering mandatory core topics. Capacity building in LGs was done in a holistic manner by covering all the key relevant stakeholders such as staff, councillors, statutory bodies and private service providers (private contractors, NGOs, CSOs etc) to ensure that a LG as system is functioning well. Cascade capacity building through ToT and standardised training materials was used since it was found to be cost effective and made national coverage easier within a short period of time.

The project had an in built incentive/sanction system. This was reinforced through a very strong M & E system. The programme conducted three M&E reviews, which helped government to understand more of the issues regarding ISD in rural LGs. As a result, a number of policy case studies and policy briefing series were developed by government. One of the major contributions arising from these studies is the development of a communication strategy, which aimed to improve access to information by stakeholders for transparency and accountability. Through M&E

reviews' government was able to evaluate the pro-poor outcomes of the project. The *participatory planning and budgeting* process introduced by the project caused LGs to incorporate the needs of the communities. LGs became more accountable since decision-making process became more transparent through participation of the local population. In terms of costs, direct labour for the construction of ISD accounted for about 19% of the total project cost with women accounting for 20% of the total person days. Each project had a Project Management Committee (PMC) comprising of the beneficiaries of the services provided. The committee provided oversight during construction to ensure that the contractors do not do a shoddy work. The committees were also responsible for the operations and maintenance of the investment.

ISD in the five sectors: Provision of health and education services are complex because of co-producers, which calls for coordination. The participation of private sector is becoming more significant because of possibility of cost recovery. In health the service in rural areas were limited to primary health care (PHC). Water in rural areas can be supplied from a variety of sources and the service has a big impact on health sector. Usually rural water supply has well-defined catchment areas and localised beneficiaries who operate and maintain the source. In the road sector, because of the bulky nature of investment, LGs do not have adequate resources and therefore rely on central government's conditional grants. Although the planning, design and citing is by LGs the production is usually contracted out using mainly labour based contractors for operation and maintenance. Provision of agriculture services is complex because some of the LG investments did not easily differentiate between services, which could have been better, provided through the private section. Nor did LGs have appropriate appraisal tools to inform them about investment choices in agriculture sector.

Pro-poor outcomes: The DDP/KDDP was able to complete 1,816 projects with overall 86% of the projects rated satisfactory or higher by respective LGs and communities. In terms of sector distribution the funds spent were 44% on education, 20% on roads and drainage, 20% on health, 10% on water and sanitation, and 4% on agriculture. This expenditure distribution was consistent with national policy objectives for poverty reduction as contained in the PEAP and demonstrated that LGs are responsible in making ISD investment decisions. The increase in the number of the ISD projects completed under the project did not

only improve the accessibility of these infrastructures to the population but also helped to build human capital and contributed substantially to poverty reduction.

Lessons Learned from DDP/KDDP

A number of lessons have emerged through the implementation of DDP/KDDP.

Sector relationships: In health and education sector, because of co-production the service cannot be fully decentralised but delegated. Also in sectors such as health and education where cost recovery is feasible, opportunities can be created for private sector participation in the provision of such services given a good policy environment.

Sustainability: Community projects with well-defined beneficiaries are easily sustained through community contribution and use of peer pressure to enforce compliance from community members. However for public ISD such as district roads where the users are more defused, it is very important that the district LGs make adequate budgetary provision for the operation and maintenance of such services. In circumstances where LGs are facing declining local revenue, sustainability of public ISD becomes problematic and a major concern.

Discretionary Funding: The provision of discretionary development budgets to LG/communities encouraged LGs to be more innovative to solve local problems. With little money LGs and communities were able to broaden their development debates. They felt more empowered and realised that they could improve service delivery even by using their own resources. Budget support allowed them to rationalise their investment activities based on local circumstances. LGs began to appreciate the need for the linkage and making realistic plans and budgets. Communities were facilitated and engaged in dialogue in order to make informed decision. Decision-making process by communities became iterative as more information was made available to them.

Capacity Building of Contractors: Whereas production of ISD can be achieved through a combination of methods, quality work can only be ensured if the LGs have the necessary technical capacity to supervise the contractors. LGs also need to deliberately invest in building *the capacity of contractors, NGOs and CSOs* so as to be able to boost the local economy. *Communities involvement* in the production or implementation of ISD,

either through contribution of money, material, labour, time to attend meetings and oversight for contracted work *does not only reduce cost but also lead into quality work and output*. Participation of community in the operation and maintenance of infrastructures, such as community water points, roads and schools leads to high rate of sustainability due to ownership.

Accountability was greatly improved under the programme by making access to information by the citizens a performance measure, which could attract an incentive or a sanction for the concerned LG. The participatory planning process, within a known budget constrain, also helped to promote accountability and transparency. During the planning process communities would know the available resource envelop and would be monitoring how this resource is being spent throughout the financial year. List of approved contractors would be displayed in public notice boards including those who have been awarded contracts. Access to information is therefore key for improving accountability.

The Karamoja region had special circumstances. Given the nomadic pastoralist nature of its community, very weak LG and high insecurity, a different approach was used. The capacity of the district staff was strengthened through mentoring by providing regular technical back-up support using the services of LGs staff from other districts. This gave psychological encouragement and commitment to the local staff in Kotido District. In terms of ISD, special consideration was given to the type and form of services they required. In education and animal health sector the services provided were mobile services where the teachers and para-veterinary staff were trained and stay within the communities as they move along in search of water and pasture for their animals. Such arrangement ensured sustainability.

Chapter 3: Conclusion

Provision of ISD in rural areas through a decentralised policy framework creates tensions between the various stakeholders due to the need for space and recognition. The perception that LGs will misallocate discretionary financing and that they do not have the capacities are some of the responses from line ministries to this tension as the claims were never proven by the DDP/KDDP experiences. In contrast, the LGs proved that with support and relevant capacity building they were able to conduct their ISD provision effectively.

Within LGs access to information is still a big challenge. However these problems were overcome through innovative ways of availing information through public notice boards and announcements in churches or local radios. This improved transparency and accountability of the use of resources.

The DDP/KDDP was implemented during the time when rural LGs were faced with declining local revenues. This became a threat to the viability of LGs and the sustainability of the ISD. Government is aware about this danger and with support from donors (UNCDF and World Bank) is taking the necessary steps to address this concern in the future through programme components, which support improved local revenue mobilisation

One of the biggest challenges being faced by LGs in ISD is the reluctance of the line ministries to appreciate the changing roles and responsibilities between the centre and LGs under decentralisation. Some line ministries guidelines are still at variance with the decentralisation policy.

Despite the above challenges the DDP/KDDP introduced a number of innovations in financing ISD in rural LGs. These innovations empowered communities, informed central government policies and influenced donors' policy in financing ISD. The ISD modality piloted under the DDP/KDDP influenced the World Bank in the design of the first Local Government development Programme (LGDP I) worth US \$ 80.9 million and the second Local Government development Programme (LGDP II) worth US \$ 165 million. Other bilateral donors: the Dutch, Irish, DANIDA, and Austria have folded in their integrated district development programmes into the LGDP II, which is based on the DDP modality. Further the Government of Uganda is establishing a Fiscal Decentralisation Strategy which attempts to diminish the large number of conditional grants while ensuring LG control over their own resources for ISD.