

**”Effective States and Engaged Societies:
Capacity Development for Growth,
Service Delivery, Empowerment and
Security in Africa”:**

**World Bank Review of Selected
Experiences with Donor Support to
Decentralisation in East Africa**

FINAL REPORT

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Introduction

This report has been drafted with a view to provide an input to the ongoing internal evaluation of the World Bank on how best to provide support to countries in Africa based on the approach of selected donors.

The report focuses on 4 key aspects of Decentralisation and the experiences from particularly the East African countries:

1. Support to Local Government Associations
2. Support to Capacity Building in Local Governments
3. Fiscal Transfer Systems, Incentives and Links to Capacity Building
4. Donor Coordination and Support to Decentralisation

The report is written by Holger Pyndt, Director of LGDK's International Consultancy Division¹ and Jesper Steffensen, Partner in NCG. Mr. Pyndt since 1990 has been engaged in supporting more than 30 countries in various aspects of decentralisation and program formulation and reviews, and Mr. Steffensen has since 1992 worked extensively in more than 25 countries within fiscal decentralisation and program formulation and reviews.

The report on this basis to a high extent represents the viewpoints of practitioners rather than researchers.

1. Support to Local Government Associations (LGAs)

1.1 Introduction

This section is written on the basis of LGDK's active involvement in supporting LG associations in Central/East Europe, Africa, Asia and Latin America², and LGDK's general knowledge about support to emerging LG associations. LGDK has supported LGAs for the EU, the Danish Government and the WB, and Mr. Pyndt has personally been involved since 1990 in support to almost all of the mentioned LGAs in the footnote.

As was pointed out in the OECD DAC Evaluation Series: "Lesson Learned on Donor Support to Decentralisation and Local Governance" the donor support to LG associations has not been evaluated systematically³. This section therefore bears the viewpoints of a practitioner rather than a researcher as the literature on LG association development is in general relatively limited.

The experiences from Uganda will be presented and analyzed in details as they represent an example to follow and provides a good basis for discussing key questions in relation to LGA support as they are presented in 1.3 "Lessons to learn". Situations of typical LGA development needs are represented by NALAG in Ghana (currently in a situation of "medium" development), and LoCASL in Sierra Leone (newly formed and not developed) and they will be described shortly to illustrate the need for and possibilities of LGA support.

¹ LGDK (Local Government Denmark) was until 2001 named NALAD (National Association of Local Authorities in Denmark)

² The countries include: Europe: Latvia, Lithuania, Estonia, Poland, Russia, Hungary, Bulgaria, Romania, Croatia; Africa: Uganda, Sierra Leone and Ghana; Asia: Nepal, Mongolia, the Philippines

³ OECD: DAC Evaluation Series: "Lessons Learned on Donor Support to Decentralisation and Local Governance", OECD 2004

1.2 Practical experiences

1.2.1 Basic considerations

Support to LGAs – also in Africa - has gained speed over the last 10 years as the key role of LGAs for the long-term sustainability of decentralisation reforms has become more broadly accepted by donors.

The key tasks of LGAs are quite big and comprehensive:

- to lobby and advocate for members in relation to Central Government, national and international donors, professional national associations and institutions etc.
- to provide services to members, including information, support to solve problems linked to national legislation and regulations, support to provision of training and capacity building to the members
- to collect and disseminate good local government practises
- to link and network for the members – nationally and internationally

Serious and successful advocacy involves negotiations with key ministries to influence legislation, fiscal decentralisation issues and the management of sector areas etc. In Africa it is traditionally believed that the “Ministry of Local Government” should represent and lobby for local government. This may suffice in the early stages but as decentralisation picks up space and LGs grow in experience and competence they need their own direct representation – in the form of a LGA.

LGAs are intermediaries between central and local governments, reflecting the real concerns, experiences, capacity and potential of their members and are valuable discussion partners. They act for local governments as a whole and do not advocate for special interests of groups of LGs (unless they are special interest LGAs) and it is this that makes them attractive for central governments and donors to develop constructive relationships with.

To interact and negotiate meaningfully with CG ministries demands a lot from LGAs – competent staff, systems to collect information and data from members, modern office equipment that allows internet linkages, good other communication means, and good political and administrative management systems. Virtually all LGAs in Africa need donor support to get to a level where they can interact as (almost) equal partners with ministries and the Government as the member LGs normally have very strained budgets that do not allow big contributions to the LGA. Donors may also be needed to assist in paving the way for LGAs to play their intended roles in relation to Central Government.

Support to LGAs very much depend on the situation of the institution at the start of the support. If a LGA has existed for some years, a donor may want to add to what is already in place by providing additional financial resources, adding staff, providing extra office or transportation equipment etc.

If the association is newly formed or under formation the situation is quite different as a donor may have a possibility to help shaping the LGA, thus avoiding potential problems right from the beginning. On the other hand, donors may in this situation very well be confronted with the challenge of helping to finance needed staff, provide for housing costs etc.

Support to LGAs can also take stock of the specific possibilities that the decentralisation set-up provides in a country. The short example from Sierra Leone below illustrates what possibilities a specific set-up can provide.

The International Union of Local Authorities (IULA) – now reformed into UCLG⁴ - in 1999 presented a tool-kit for local government association development and work with support from UNDP. The tool-kit includes a collection of good experiences of LGA work around the world and 8 very short thematic guides in 3 languages (English, French, Spanish). This tool-kit should however only be considered to be a useful guide that can supplement a comprehensive donor support to a LGA – it can in no way be considered a substitute for donor support.

1.2.2. Uganda – Danida support – A good experience

Comprehensive support package

In Uganda a LGA support programme was formulated by Danida in 1997 as part of Danida's second phase of Support to Decentralisation.

The starting position was that of a new LGA in the making (Uganda Local Authorities Association – ULAA – founded 1994) to organize districts, while another association for the urban areas (Urban Authorities Association of Uganda – UAAU) had existed since 1959 but was considered weak and badly functioning.

As one of the lead donors in decentralisation, Danida did not want to support one association and not the other, although Danida's support in those days were more district than urban oriented. Danida on the other hand did not want to help create a situation where each association should have similar secretariats (i.e. both having one lawyer, one financial specialist, one information officer etc.) that they both would have problems funding in the longer run.

On the basis of this, Danida decided to support the creation of a **joint secretariat (JS)** for the two LGAs. As both LGAs at the time badly needed qualified staff, Danida decided to fund the employment of 5 core staff over a period of 4 years:

- General Secretary (CEO)
- Legal specialist
- Financial specialist
- Information officer
- Training officer

Such staff is the bare minimum for a newly established LGA to function. In addition an accountant is always needed but such one was already in place in Uganda (ULAA).

This professional (“academic”) staff is in developing countries normally supported with an array of support staff – like secretaries, office attendants, drivers, messenger boys, tea ladies, guards. Such support staff can and should normally be funded by the LGAs themselves, while the donors can support the more expensive and important professional staff.

The total Danida support package for the first 4-year period (1998-2002) included the following:

⁴ UCLG: United Congress of Local Government. The transformation of IULA and UTO (United Towns Organisation) into UCLG took place in 2004

- 1) Support to payment of 5 core staff (full coverage)
- 2) Support to housing costs (full coverage)
- 3) Support to operational costs (partial coverage)
- 4) Support to purchase of office equipment (full coverage)
- 5) Support to purchase of transportation means (cars) (full coverage)
- 6) An activity fund (for instance for meetings and regional activities as well as for purchase of local consultancy)
- 7) A fund for study tours
- 8) Funds for consultancy and twinning with LGDK

The total costs of the support package amounted to approximately 1,3 mill € (approx. 1,65 mill \$).

The existence of two LGAs to be supported created some problems in the operational sense. It was decided to place the Joint Secretariat in the office house where ULAA has positioned itself and UAAU was asked to join, but declined (they had free housing in two offices of the Kampala City Hall). This meant that most office equipment was placed in the Joint Secretariat and housing and operational costs referred to the JS (and funds for the JS was channelled through ULAA) – and this led to jealousy from UAAU.

Cars were divided, some office equipment was given to UAAU, and study tours were implemented by composing joint teams from the two LGAs.

After a review of the first stage support, this was considered successful and continued in a second stage 2003-2007. In the second stage support for salaries is on a declining scale and other areas of support have been remodelled somewhat to allow for more activity support (seminars, conferences, studies).

In a similar Danida funded LGA support programme in Nepal, the support scheme above was replicated, but in Nepal a declining scale for salary support of core staff was used from the beginning.

It was hoped that the two LGAs in Uganda eventually would merge through the existence of the JS where joint weekly management meetings took place, a joint library was established and specialists servicing both associations were placed.

Unfortunately, jealousy prevailed instead of reason and a merger has not taken place. On the contrary, after a study on merger made by local consultants the two associations are further apart than ever.

Support to twinning with LGDK and consultancy

The modality for this has been annual agreements between LGDK and ULGA⁵ in which missions of LGDK to Uganda have been scheduled with short TOR for the assignments and the overall budget for the annual agreement have been made. The agreements were subject to contractual approval by Danida. Normally 3-4 short-term missions of LGDK experts have been implemented, from time to time supplemented with incoming study tours or internships to Denmark. The annual budget has typically been in the order of 70- 80,000€.

The themes that have been agreed for cooperation were:

⁵ ULAA and UAAU decided for conveniency to have a common denomination Uganda Local Government Associations . ULGA

- Organisational issues and strategic development, incl. financing of the LGAs, review of statutes etc., review of the political and administrative organisation, training of the political and administrative management
- Fiscal decentralisation (FD)
- Training and capacity building (CB)
- Delivery of services to the members
- Information and communication with members

These themes are fairly “classical” for LGAs. Early in the cooperation an organisational review of the LGAs was made with a number of recommendations to be followed up on during the subsequent cooperation. The review led to elaboration of a first Mid-Term Strategic Plan (2000-02) and later a second Mid-Term strategic Plan (2003-06) and under this area the status of the LGAs were reviewed with recommendations and a revised membership payment schedule recommended for ULAA. Also a process of merger was outlined in 2000.

Fiscal decentralisation has been a core cooperation area as it is “bread and butter” for any LGA. Reviews of the LG finance system have been made, a policy paper for ULGA in FD has been drafted, ULGA has been assisted in analysing financial data, a database has been established with key data of LG personnel and data, cooperation between ULGA and MOFPED (“Ministry of Finance”) has been facilitated, and lately ULGA have been assisted in preparing and implementing annual negotiations with the line ministries about the modalities and use of the sector (tied) grants. This last has been a breakthrough for ULGA in manifesting their role vis-à-vis sector ministries and through these negotiations some ministries have really gained respect for the LG associations. However, ULGA, despite advocacy, has not been sufficiently powerful to avoid the most recent re-centralisation tendencies, such as abolition of G-Taxes with insufficient signs of compensation, central payment of LG chairmen and the executive committee and initiatives to change the appointment of the Chief Administrative Officers from the local to the central government level.

The support within CB has been to assist in setting up a system of regional training “centres” (no physical building) through analysis and elaboration of a business plan, to help ULGA administer a Danida “Training Fund”, assistance to position ULGA in the LGDP II programme where significant funds are availed to CB, and support to facilitate ULGA activities within CB.

The cooperation on delivery of services to members led to implementation of an investigation about needs and requests among members and subsequent elaboration of a ULGA Service Catalogue.

The cooperation on information and communication led to elaboration of a ULGA Information/Communication Policy, support to implementation of information campaigns and elaboration of quarterly newsletters.

The assistance of an experienced LG association to ULGA is considered successful as it has helped manifest ULGA as key players in decentralisation. That ULGA are key players is evident from the following:

- ULGA appoint representatives for the majority of the board of the Local Government Finance Commission
- ULGA implement annual negotiations with line ministries on the use of sector grants

- ULGA is centrally placed in the implementation of the Joint Annual Review of Decentralisation in Uganda
- ULGA is represented in the Local Government Budget Committee
- ULGA is represented in the Local Government Release and Operations Committee
- It is difficult for the Government to take major political activities within decentralisation without prior consultation with ULGA
- ULGA has been made official counterpart for the Uganda Aids Commission

In other words ULGA have become viable players in decentralisation. As indicated above a merger would have facilitated a further strengthening, but the contrary seems to be the case and the UAAU seems to go towards a difficult future.

The donors have decided not to make merger a condition for support - which is quite sensible. On the other hand, the donors should have limited patience – if LGAs want to be independent without having the financial and administrative basis for this, they must be told of the risk of dying.

Conditionalities of support

In spite of the relative success in lobbying, ULGA still have problems with their funding. The district LGA has showed great improvements with a 4-5 doubling of membership payments over 3 years. The urban LGA is weak with minimal membership payment that will not permit long-term survival.

Danida made membership payment one of several yardsticks for the LGA success – not a strict conditionality - and here the district LGA generally “passed the test”, while the urban LGA did not. An objective fact however influenced the situation. Members pay their LGA contributions from own revenues, and local revenues have been gradually declining since Parliament elections in 2002 primarily due to interference from the President and Parliament members.

Generally, the LGAs have been able to attract and retain staff thanks to the possibility of offering good salaries – not exorbitant but quite nice. It has been extremely difficult to attract a fiscal decentralisation specialist, and recently the existing one was taken over by SDU (US support programme)

Support from other donors – move toward basket funding?

Danida was the first donor to support the LGAs in Uganda. Thanks to this support the LGAs have grown and are today considered indispensable partners for many donors in planning and implementation of decentralisation programmes.

Several donors have supported activities that are implemented by the LGAs.

- EU supported implementation of a series of training events for clerks of councils, including funding of 1.5 relevant LGA staff for the work
- DFID supported implementation of research/investigation activities, information and communication activities, and monitoring and evaluation activities. This support included payment of 3 professional staff costs as well as an accountant and a driver
- Donors have jointly supported special events like LGA conferences and seminars

It is not without problems to have one donor providing all the “heavy duty” support (basic staff support, housing, operational costs, transportation, twinning etc.) while other donors support more “sexy” activities like investigations and research. It is without any doubt that a

combination of such support is necessary. Without the long-term basic support, the more interesting parts will hardly ever become relevant.

On the basis of this, it has been attempted to go for basket funding for the Uganda LGAs but so far a scheme has not been developed.

Outstanding problems?

In Uganda as in all other countries there is a “free-rider” problem. A LGA in its advocacy works for all LGs in the country, not only the members – some LGs will therefore get free services. This is impossible to avoid but over time as the understanding of the importance to have a strong national LGA increases the problem will diminish.

It can also be seen as a problem that the self-funding of an LGA is relatively small in comparison to the overall funding streams. In my view it need not be a long-term problem if the membership contributions steadily increase and the LGA is able to provide good use and administration of various donor funded activities.

Membership payments of the two LGAs in Uganda have developed as indicated in the table below:

| Development of membership payments of ULAA and UAAU 2002-2004 | | | |
|--|---------|---------|------------|
| Mill. Ush | 2001-02 | 2002-03 | 2003-04 *) |
| ULAA | 62.4 | 90.5 | 177.3 |
| UAAU | 41.0 | 34.6 | 48.7 |

*) Figures for 2003-04 are preliminary

Sources: ULAA and UAAU audited accounts and preliminary accounts⁶

This portrays a sound development of ULAA and the fact that ULAA in 2002-04 could attract some 600-1,000 mill. Ush in additional donor funding should not be seen as a problem, but rather as a success for ULAA, if accountability for the donor funds is provided. Evidently, one may ask who owns the LGA if donors pay 80% of the total costs, but a similar question might then also be asked to many developing countries where approx. 50% of the national budget is provided by donors.

⁶ Figures are taken from a LGDK report “Review of the achievement of ULGA’s Strategic Plans 2002-06”, June 2004.

Box No 1: Achievements of LGAs in Uganda

In addition to what has been mentioned above the key achievements of the LGAs in Uganda (especially ULAA) are:

- All higher level LGs are members and lower LGs are on the way
- All the professional LG sub-organisations (town clerks, finance administrators, speakers etc.) are actively involved in the work of the LGAs
- All changes in various legislations and review of systems, like the review of the government service in 2003-04 has had ULGA as active partners
- The design of the LGDP II was influenced by ULGA, including the design of the and the CBG and the Annual Assessment process
- The LGAs are actively involved in TCB to LGs – first through administrative discretionary training fund of Danida 2001-02, delivery of legal training funded subsequently through various form of training delivered through LGDP II with the as pre-qualified training providers
- The LGAs are actively involved in the implementation of the JARD (Joint Annual of Decentralisation) where ULGA for the first JARD in 2004 organized 6 seminars to provide inputs to the JARD
- The LGAs are involved in almost all the key institutional organs set up by the Government (Local Government Finance Commission, Local Government Budget Committee, Local Government Release and Operations Committee, Technical Working Groups on development of LG standardised training materials etc.) and use these to gain information and present LG viewpoints
- Annual negotiations take place between the line ministries and the LGAs on the use of the sector conditional grants
- The LGAs are actively involved in the fight against AIDS – ULGA has been appointed official counterpart by the Uganda AIDS Commission thanks to its active stand against AIDS
- The LGAs took the initiative to develop a Charter on Accountability and Ethical Code of Conduct for Local Governments (April 2003)
- The LGAs have declared their services in a Service Catalogue and deliver good and appreciated training to the members

1.2.3. Ghana – the National Association of Local Authorities in Ghana (NALAG)

NALAG is the sole LGA in Ghana. It changed its outdated Statutes in 2003 and its secretariat is placed in administrative buildings provided for free by the Accra Metropolitan Assembly, one of the members.

Key problems include:

- Insufficient funding – NALAG today has a stable income of approx. 1.4 bill Cedis (approx. 150,000 \$). This should preferably be raised with some 80% to a total of 2,5 bill Cedis.
- Bad and insufficient office space – the offices are very old, the roof is not tight and there is not adequate room for additional staff. NALAG has land for own construction of a house but funding is a problem
- Limited “academic” staff – only 5 of the staff have academic degrees. There is a need to employ an administrative General Secretary and some 4 more “academic” staff

Ghana represents a special case as NALAG has agreed with members and the Government that membership contributions are deducted from the Common Fund grant payments to District Assemblies. Normally, LGAs spends disproportionate time and efforts to have members pay their membership dues.

The biggest challenge presently for decentralisation and devolution in Ghana is to make the LG Service Act operational. This would in reality lead to a transfer of the ministerial staff to District Assemblies and a transfer of their budgets as well. A pilot project starting in 2005 will test full devolution in 25 districts.

Another challenge is to make the sub-district units operational. They should implement delegated functions and will in future be important partners when District Assemblies take over service provision to the inhabitants from the ministries. The problems with making the sub-district units are lack of staffing, lack of funding and lack of clarity about funding.

NALAG is in a classical situation of “medium” development. Basic staff and office premises and equipment are in place, but are not sufficient to match the increasing challenges that a – long awaited, but still potential – breakthrough of devolution would entail.

NALAG has received small-scale support from different donors. In view of the high degree of centralisation in Ghana with the central government appointing Mayors and Town Clerks Danida has not been willing to launch a comprehensive support package as in Uganda, but has provided an activity fund that NALAG has been able to draw on for seminar, conferences and other activities.

In the ongoing support for Decentralisation in Ghana 2003-2007, Danida continues to support NALAG and has expanded the activity fund support with limited funds for twinning with LGDK.

Other donors also provide small-scale activity oriented support, for instance UA Aid, so no donor has yet decided to approach providing a comprehensive package along the lines in Uganda.

1.2.4 Sierra Leone - “Local Councils Association of Sierra Leone” (LoCASL).

A completely new association

At a meeting in June 2004 19 Chairpersons and 19 Deputy Chairpersons at a meeting unanimously decided to form a LG Association “Local Councils Association of Sierra Leone” (LoCASL) and the political management was elected. At a meeting in November 2004, a 3-person working committee was formed to formulate the statutes (“Constitution”) of LoCASL. A draft Constitution was presented in January 2005.

The Local Government Act, 2004 provides a good framework for devolution and provides several platforms where LoCASL can owe influence. The most important platforms in the LGA are:

- The Local Government Finance Commission
 - 4 of 7 members of the LGFC are nominated by Chairpersons of all local councils. With a due appointment procedure in future LoCASL can have major influence of the work of the LGFC and indirectly select the chairperson of LGFC

- The Inter-Ministerial Committee on Local Government and Decentralization
 - 4 Local Council Chairpersons are to be elected among 13 members
- Local Government Service Commission
 - 4 of 8 members must have “considerable knowledge about local government matters”

In comparison with most other countries in Africa and other parts of the World, these platforms are formidable. Most LG associations would have had to fight hard to get such platforms, but in Sierra Leone they were almost presented “on a silver plate”, maybe due to the influence of donors and international consultants (including one from Uganda) during the formulation of the decentralisation reform concept.

Need for support

LoCASL receives some initial support under the WB IRCBP⁷ in the form of short-term international consultancy⁸, including an institutional review, support to formulation of statutes for LoCASL and later support to policy formulation and advocacy.

LoCASL represents a newly formed LG association that even does not have a secretariat (an administration). It goes without saying that no LG association can develop and grow strong without this. LoCASL bears witness to this as meetings are held infrequently, decisions not followed up, statutes not developed fully, etc.

As is evident from the short description above, there is certainly a good platform for LoCASL to act upon with the Finance Commission, the Inter-ministerial Committee, and then Service Commission – 3 vital areas that could form a good start for LoCASL activities. Further, the fiscal grant system to local councils is under design, including development of sector devolution grants; administration grants; local development grants.

To enable LoCASL to address these challenges, donor support is needed to establish a professional secretariat, to ensure proper institutional development of LoCASL, and to assist in policy formulation. Such a programme should preferably be formulated along the lines from Uganda, i.e. on a medium to long-term basis and with broad and massive support in the first 5 years.

1.3 Conditionalities for LGA success

The strength or weakness of a LGA depends upon a number of factors, like:

- the political maturity, i.e. the ability of a Political Board of a LGA to appear non-party-political. Any party political decisions will weaken a LGA in the medium term as a LGA must embrace all democratic political parties
- the strength and ability of the LGA secretariat – a LGA is no stronger than to the extent it can prove its points and opinions with solid documentation and facts
- the national political climate in the country – is there any interest in a dialogue and wish/ability for consensus and/or compromises
- the ability of the LG mayors/Chairpersons – no LGA is stronger than its weakest link
- the ability of the LG management and staff – no LGA is stronger than its weakest link

⁷ IRCBP = Institutional Reform and Capacity Building Project

⁸ The consultancy is provided by LGDK consultants (Holger Pyndt, Philip Bottern)

- the understanding and support from donors towards providing substantive and long term support to a LGA and assist in creating the necessary platforms for CG-LG dialogue by pushing CG towards this
- The strength of the Ministry of Local Government as a negotiation partner in the Government

Only if a LGA has a minimum administrative strength it can play a valuable and substantive role in a decentralisation process. Information is key, and if LGAs have to rely on CG information they have difficulties in shaping substantive policies. One important factor for a LGA is to be able to discuss facts instead of airy policies that a Government or a Minister may often be inclined to. The more information, the more facts a LGA has, the better positioned will it be to negotiate and fight for policies.

It helps a LGA when independent institutions are established, like the Local Government Finance Commission in Uganda (with a majority of members representing LGs) and a Local Government Service Commission, as they can provide much information to LGAs and such commissions are normally more open to dialogue than ministries – assisted by having LG representatives in the commissions.

If government and donors push for a review of decentralisation to provide an input to the design of a decentralisation strategy or to review the ongoing decentralisation reform, donors could help LGAs tremendously by providing them with an active role in this process – either as partial implementers, quality controllers of consultants, or organizers of regional conferences to discuss progress and problems with members. Uganda and Nepal are examples of such processes⁹

1.4 Lessons to learn and recommendations

Several aspects are relevant to discuss when reviewing the lessons of the Uganda LGA support in the light of how to support LGAs in Africa in general:

- a) How comprehensive should support be from the beginning?
- b) Long term or short-term advisory support?
- c) Should LGAs be supported as part of a “package” (support to ministries alongside with support to LGAs?)
- d) Twinning with other LGAs?
- e) Does a minimum LGA support package exist?
- f) Which conditions should be attached to the support?
- g) Basket or individual donor funding?
- h) How should support funding be provided?

a) How comprehensive should the support to LGAs be?

Most often donor support to LGAs is fairly limited and might for instance include:

- a. Some activity support (a discretionary or fixed activity sum),
- b. Placement of a foreign advisor with the LGA (known from SNV in Tanzania, GTZ in Kenya, and DFID in UAAU in Uganda) to help guide and advise their activities,
- c. Support to implementation of research activities,
- d. Support to implementation of training activities
- e. Support to development of strategic plans etc. (known from Ghana where a local consultancy has helped draft two Medium-Term Strategic Development Plans)

⁹ JARD in Uganda and a Joint Review of Decentralization in Nepal 2000-01 implemented by Pyndt with support from ADDCN

Such support activities are all valid and helpful, but they will not have the ultimate effect if LGAs do not have a fully staffed and functional secretariat.

The experiences therefore underline the importance of providing a fairly comprehensive donor support to emerging LGAs, including partial or full funding (preferably full funding on a slightly declining scale) of key staff (some 5-7 staff categories), housing costs, office equipment, transportation means, an activity fund to cater for LGA meetings, seminars, conferences, maybe study tours, etc. It will enhance the support tremendously if emerging LGAs are also supported in developing twinning relationships with other, experienced LGAs to advise them in their development process. A fund for consultancy should also be established, so that LGAs can buy local and/or international consultancy for specific tasks and problems.

One question to address is whether it is advantageous to place a long-term international or local advisor with a developing LGA in Africa. This is traditionally done by most donors when supporting ministries. There are pros and cons to consider. The right person – a former or present employee of a LGA – can bring experience and guide the LGA in its development. But the same person may also prevent the LGA from developing in its own way and by its own means and speed by being too dominant and influential. LGA staff will likely be less critical towards such a consultant than ministerial staff.

During the twinning between ULGA and LGDK no long-term advisors were placed with the associations and they (especially ULAA) have still undergone a quite remarkable development, so this proves that LGA support can be done without long-term advisors. This has also been the case in all the LGA support projects LGDK has implemented in Central/East Europe and Russia.

Even a very comprehensive support package to support LGAs will have quite limited costs compared to the overall costs of support to the decentralisation process in a country.

b) Long-term or short-term support?

A comprehensive support should last for at least 5 years, but it is more realistic to have support lasting for 10 years, as it takes quite some time to make local authorities understanding the role of LGAs as well as central government ministries may have difficulties in understanding or accepting the intended role of LGAs – and it takes very long for members to understand and be willing to pay the full costs of a strong and viable LGA.

c) Should LGA support be part of a comprehensive support package?

In some developing countries donors may have problems in supporting LGAs as a stand-alone activity as “Ministries of Local Government” may feel bypassed and therefore object to potential “competitors” being supported. Danida has therefore always introduced their valuable LGA support in larger decentralisation programmes that include “Ministries of Local Government”, strategic activities, and specific support in individual local authorities (District Development Support). This might be done by one big donor alone with sufficient funds but when several donors provide coordinated support it becomes much easier.

d) Should twinning be an integrated element of LGA support?

Twinning is a fairly new element in aid to developing countries, but it has turned out to be vital as experienced LGAs are in a strong position to understand and appreciate the nature of LGA work and use their own LGA or other LGAs as good/bad examples in scale 1:1. EU has

expanded the twinning concept in relation to the enlargement of the EU so that all public authorities can twin and this has been done as recognition of the benefits of direct cooperation between public servants/institutions. To provide advisory support to LGAs is not the same as advising any other NGO/CSO as LGAs have a very special status as a kind of “private” association consisting of public entities.

e) Conditionalities for LGA support?

When donors provide support to LGAs they are supposed to be able to account for progress. Such progress can be mentioned in broad terms (“making an impact on the decentralisation reform process”) or in more specific terms (number of implemented activities, payment of membership contributions etc.). As LGAs are often quite vulnerable institutions (politically, financially), strict conditionalities for support cannot be recommended, but donors should agree with LGAs on how to measure progress of their activities so that both sides know what is expected and a continued push for increase of membership payments is positive.

f) Basket or individual donor support?

So far most LGA support has been provided by individual donors and only in some countries like Uganda is basket funding in the making. LGA support is very fit for basket funding so this development should be supported. In this we agree with the findings in the OECD Evaluation Series that “New institutions, such as associations of local authorities and independent finance commissions, have shown that they can play an important role in enhancing knowledge and information about LG finance, mediate conflicts of interest between central and local government and sharing experiences in support of replicating pilot schemes. These institutions are obvious subjects for future joint (basket) donor support”¹⁰

g) How should support funding to LGAs be provided?

It is important that support to LGA associations is not channelled via “Ministries of Local Government” as this will provide the ministries with a power position they may feel tempted to use (misuse), or the support may be entangled in unnecessary bureaucratic procedures. Some donors like DFID have had severe delays in their support to ULGA in Uganda partly for this very reason. Support to LGAs should go directly from the donors to the LGAs’ bank account.

Recommendations

- LGAs should be supported as an integrated element in donor support to decentralisation. In their other support to decentralisation, donors should be aware to provide rooms for LGAs to operate
- Donor support to LGAs should be comprehensive and include support to key staff, housing, operational costs, an activity fund, twinning and study tours – without a comprehensive support package many LGAs have difficulties in lifting them to a new level
- Donor funding should be provided directly to the LGAs and not through the “LG ministry”
- Support to LGAs should be provided on a medium-term basis, at least 5-10 years
- Support to LGAs should be declining over time to enhance sustainability
- Twinning between LGAs – including delivery of professional consultancy services - is an important element in strengthening emerging LGAs in Africa

¹⁰ OECD DAC Evaluation Series, op.cit. pp. 53-54

- Donor should strive to provide basket funding for the LGAs to make donor support more robust

2. Local Government Capacity Building (CB)

2.1 Introduction

This section is written on the basis of LGDK's active involvement in development of local government CB in Central/EastEurope, Asia and Africa¹¹ and the section represents a practitioner's viewpoints. The experiences from the recently issued OED report "Capacity Building in Africa"¹² have also be applied, although this report does not contain any projects that are specifically aimed at decentralisation and local government. The report focuses on programmes in Benin, Ethiopia, Ghana, Malawi, Mali and Mozambique and therefore adds to the focus in this chapter on East Africa.

One of the pertinent problems in relation to CB in LGs is the lack of focus on and decentralisation of human development and management issues. In most countries LGs lack authority to implement full management of their staff (including hiring and firing) and this evidently may hamper the effects of CB of LG staff. This issue is, however, not the focus of this note, but the area certainly deserves much more attention in future¹³.

2.2 Practical experiences

2.2.1 Conceptual issues

There is not a universally agreed definition of what constitutes capacity building. In the OED report, 4 different definitions are provided and generally there is agreement on capacity building to address development/strengthening of institutional, organisational and individual (human capacities) issues.¹⁴ In this note, CB will be used as an abbreviation for Training and Capacity Building.

2.2.2 Basic considerations surrounding CB for local governments

Local governance is characterised by covering a wide field of activities encompassing several different sectors, by being governed by popularly elected councillors, and by being spread over the whole country. These characteristics influence the scope and design of CB for local governments. The high turnover of LG staff is another aspect that needs to be taken into consideration but the high turnover of staff is not a speciality for the LG sector alone.

In Africa, sectors are normally heavily influenced by or directly managed by the respective sector ministries and their de-concentrated units at regional and/or district levels. The logic is therefore most often to leave CB within sectors to the respective sector ministries¹⁵ so that local government CB primarily covers cross-cutting generic issues, like political management, financial management, procurement, project management, personnel management, interaction with civil society etc.

¹¹ In Africa, Mr. Pyndt managed the preparation of Training and CB in LGDP II¹¹ in Uganda in 2002-2003, including elaboration of 26 standard training courses, certification of training providers, elaboration of CB plans in districts, and elaboration of a National Framework for Local Government Training and Capacity Building. In Tanzania, Mr. Pyndt developed the CB component in the Local Government Support Programme (LGSP) in 2003 that was approved by the WB in 2004. He is presently also involved in preparation of Training and CB in Sierra Leone as part of the WB programme Institutional Reform and Capacity Building Project (IRCBP).

¹² OED/WB "Capacity Building in Africa" – an OED Evaluation of WB Support, Advance Copy, April 2005

¹³ An analysis of some of the issues is presented in the "Comparative Analysis of Decentralisation in Kenya, Tanzania and Uganda", Final Synthesis Report and Country Study Reports, August 2004, by Jesper Steffensen and Per Tidemand et al

¹⁴ OED, op.cit. p. 6

¹⁵ OED, op.cit. pp 19-32

A key concern is to which extent Training and CB should be supply driven and to which extent demand driven. Supply driven Training and CB includes safeguards as the ministries etc. providing training and CB can ensure focus on accountability, good governance and other vital elements. Demand driven training and CB ensures on the other hand active participation from the LGs and enhances the principle of devolution and self-determination.

The institutional set-up of local government CB is crucial. The considerations in Africa address to which extent CB should be left to the “free” market and to what extent be governed by established institutions. The solutions differ depending on the traditions and development. In Ethiopia, the Government has created a Ministry for Capacity Building and has made capacity building a central focus in its poverty reduction strategy¹⁶ while Ghana by law has established an Institute for Local Government Studies whose key role is to develop and deliver training to LGs. Tanzania has several relevant education and training institutions, while Uganda has very few. The trend in Africa seems to go towards creating some kind of competition among established training/education institutions so as to enhance efficiency, but this in itself does not solve the problems of having CB cover all areas of the country – also the more remote. For this, special solutions must be developed.

The democratic election of local government councillors provides a constant training challenge as they are normally to go for election every 3-4 years and up to half are not returned to office. The training challenge is exacerbated by the often very low skills and qualifications of the ordinary local councillor. Also here the challenge is how best and most efficiently to cover the whole country.

Normally LG staff in Africa is not offered long-term education as they often are in Europe. Makerere University in Uganda has with donor support launched a scheme to provide such education to selected LG managers¹⁷. Without additional reforms, like increase in pay and working conditions, we are quite sceptical about the success rate of this approach as the private sector most likely will seek to attract the educated LG staff with better pay.

Finally, a key problem in LGs as in ministries is how to create an institutional motivation for CB so that it does not just follow individuals’ need for daily allowances and personal development. Incentive mechanisms must be developed to change the unproductive, traditional approach.¹⁸

The African countries have sought different solutions to these problems but in our view the experiences from East Africa, especially Uganda, are most promising.

¹⁶ OED, op.cit. p 21

¹⁷ OED, op.cit. p32

¹⁸ Numerous studies on capacity building support in the recent years have shown the problems with supply driven capacity building support without proper linkages to funding flows, incentives and local needs, cf. e.g. evaluations of district support programmes in Tanzania, exemplified by: Gerhard van Land, Emmanuel Ssewankambo et al: “*Ex Post Programme Evaluation of Kilosa District, Tanzania*”, 2004 and 2) “*Evaluation of the District Rural Development Programme and Formulation of Future Netherlands Support to Decentralisation and Local Development in the Ex. DRDP districts*”, Volumes I and II, 2004, which revealed that the CB support from the donors in various district support programmes in Tanzania could have been more efficiently applied if there had been a better integration with government systems and procedures, stronger linkages to incentives and investments, and if a more demand driven approach had been pursued.

2.2.3 Traditional problems with CB for local governments

Traditionally there has been much criticism of CB in Africa for some of the following reasons¹⁹:

- CB has been supply driven – not demand driven and not targeted towards the local needs
- CB has been fragmented, project linked, and without an overall framework
- CB has not been based on an adequate training needs assessment
- CB has not been directed at the complexity of factors surrounding institutional development (cf. above – organisational, human and institutional issues are integrated)
- CB has lacked a long-term approach
- CB has often only been a bi-product of a project and only served to reach the project goals
- CB has lacked continuous monitoring and evaluation
- For CB in LGs, the outreach is often too limited to reach the lowest level (villages)

2.2.4 A good example – Uganda's LGDP II²⁰

The design of LGDP II tries to address many of the critical issues mentioned above and the distinct features of CB under LGDP II are:

- A National Framework for CB in Uganda sets the overall framework
- National ownership and leadership is secured by MOLG²¹ having established a Capacity Building Unit to overview CB development and implementation
- Technical Working Groups are established to direct elaboration of new training courses and manuals and the TWGs include participation from line ministries and LGAs
- CB funds includes both discretionary and tied funds
- A great part of training has been standardised and certified ensuring a certain quality and uniformity of training and CB around the country
- Support is delivered to establish Human Resource Development Units in higher local governments to direct the work with training and CB
- CB is primarily demand driven
- CB is linked with district development plans
- CB is seen as a means for local governments (LGs) to gain access to development grants, i.e. there is a direct in-built CB stimulus in the programme
- LGDP II has an annual assessment of LGs that provides a kind of monitoring of CB and thereby provides input to which areas CB should most productively address

Below we provide more detailed comments to some of these points.

National Framework

The National Framework for CB in Uganda was prepared over a period of approximately 2 years making internal and external consultation possible. The Framework includes a description of the institutional set-up of CB, of the roles of the key actors in CB, as well as the operational modalities. It was drafted by MOLG and in 2005 formally approved by the Government.

Operational modalities of CB under LGDP II

¹⁹ Most of the points are mentioned in the OED report, op.cit.

²⁰ LGDP II is a national programme that includes all LGs in Uganda

²¹ MOLG = Ministry of Local Government in Uganda

LGDP provides discretionary Capital Grants (CGs) to LGs based on an objective and transparent formula. Access to the CGs is not automatic as it is tied to performance measured annually. To enhance the access of LGs to the CGs they can use a Capacity Building Grant (CBG), of which 35% go to higher LGs and 65% to lower LGs.

The CBG has the following menu:

| Capacity Building Grant (CBG) Menu²² | 2003/04 | 2004/05 | 2005/06 |
|--|-------------------|-------------------|-------------------|
| 1. Career and Skills development courses | Max. 20% | Max. 20% | Max. 20% |
| 2. LG Basic Functional Skills development courses for HLG staff, councillors and statutory committees, sub-county chiefs and sub-accountants | No limits defined | No limits defined | No limits defined |
| 3. LLG staff and councillors | Min. 25% | Min. 25% | Min. 25% |
| 4. Discretionary CB opportunities | Max. 15% | Max. 20% | Max. 30% |

The CBG in LGDP II constitutes approx. 15 mill \$ out of a total programme envelope of 165 mill \$, i.e. approx. 9%.

A similar menu was developed for the LGSP in Tanzania, cf. below in 2.2.5.

The use of the CBG in districts and the underlying sub-counties is to be managed by the following institutions with provision of how big a part of the total CBG should go to LLGs:

- a CB Unit in the district to plan and manage the overall CB interventions in the districts and in the underlying sub-counties/towns. To guide the use of the CBG, a CB plan will have to be elaborated in which the interventions are related to the implementation of the District Development Plan
- a District Management Board to take leadership decisions and manage the CB Unit

The CB Units are new institutional organs based upon the existing personnel offices while the District Management Board is an existing institution.

Purchase of CB follows the normal procurement procedures in Uganda, i.e. through public tendering and with the involvement of the District Tender Board. The only exception to this tender format is some training in sub-counties when this is done by the involvement of the so-called "District Resource Pool", cf. below.

Annual assessment of LGs

The annual assessment measures the performance of LGs over the last year, normally based upon 8-10 different criteria areas (and about 70 indicators) that are well-known for LGs. Based upon the result of the annual assessment, LGs can get a nominal capital grant (CG), enhanced CG (+20%), decreased CG (-20%) - or no CG at all! It goes without saying that this methodology provides a strong impetus to use the CBG to enhance the institutional performance next year so to get access to increased CG.

A manual is developed and regularly updated to guide the annual assessment and this manual is known by the LGs so they are not taken by surprise when the assessments are implemented. Multi-disciplinary expert teams managed by MOLG and with participation from line

²² HLG=Higher Local Governments (Districts, City); LLG=Lower Local Governments (Sub-counties, Towns, Municipal Divisions). Figures are taken from the LGDP II Project Appraisal Document, 2 May 2003

ministries, LG associations, selected experts from individual LGs, and independent experts are doing the assessment that can also indirectly guide national policy development depending upon the nature of the findings. ²³

Standardized training materials

In order to ensure CB of sufficient quality MOLG defined 26 training courses to be offered to LGs under LGDP II. Almost all training manuals are in two forms – one for districts, and one for sub-counties. In this way it is attempted to tailor the courses and manuals to the skills and experiences of the clients.

Elaboration of the training courses was done partially by local experts, partially by international consultants and all training courses and manuals were officially approved by MOLG. All training courses were elaborated according to a guide (“TOR”) developed by international consultants²⁴. Within the selected themes the training providers must use the standardised training manuals or parts thereof. The training manuals and courses are modular, so modules from one course can be combined with modules from other courses upon need providing maximum flexibility and possibilities to adapt the training course to the clients. The training course manuals are freely accessible for all certified training providers and are the ownership of MOLG.

The elaboration of 26 training courses and manuals over a period of approx. 1,5 years demonstrated an extremely good cooperation among the donors as they individually with full transparency funded a number of courses: EU 9 courses, US Aid 5 courses, DFID 4 courses, Danida 3 courses, Austria 5 courses. A list of the 26 training courses is included as Annex 1. A few additional courses are already under development.

Certified training providers

In order to avoid low quality or bogus training, MOLG organised a process of certification in which training providers could seek pre-qualification and thereby a right to perform training under the LGDP II formula. In the first round, approximately 50 training providers were certified, and in the second round approximately 80 training providers. ²⁵

The certification seeks to ensure providers have the necessary experience, knowledge and institutional capacity. In case of bad performance, providers can be taken off the list. The list is updated semi-annually by MOLG.

Discretionary training and capacity building

Part of the CBG is fully discretionary and CG can use the funds for purposes they define themselves over and above the standardized training courses. That could be technical assistance for specific tasks, traditional training of their own definition, internal study tours in Uganda etc. Special funds are also reserved for education to cater for LG staff that want to have a special degree.

District Resource Pool

In all countries and especially in Africa, it is difficult to reach the lowest LG level – villages. In Uganda this level is denominated “sub-counties”/”municipal divisions” of which there are

²³ The MoLG is now more involved in the assessment with a QA from private consultants. An evaluation of this new approach has still to be made, hence the experiences in this section is based on the period from 2000-2004.

²⁴ As mentioned above, the team of consultants was managed by Holger Pyndt, LGDK supported by Emmanuel Ssewankambo, Mentor (Uganda)

²⁵ Some of the poorly performing providers have been excluded from the list.

approximately 1,000. It is impossible and too expensive to reach all of these with training providers from Kampala, so LGDP II includes a provision to mobilize the so-called District Resource Pool. This consists of leading personnel employed by the District Council both at city hall and in district institutions (e.g. schools) as well as qualified persons from state and private institutions in the District.

It is expected that the local government associations will take upon themselves to organize the District Resource Pools, including upgrading through T-O-T. Experiences are so far fairly scarce with the use of the District Resource Pool, but the potential benefits are great.

Monitoring

Monitoring of CB is indirectly done through the annual assessment process, but in addition to this MOLG implements monitoring of selected CB interventions through its inspection department, often under involvement of the local government associations. The districts are supposed to send reports to MOLG about the implementation of CB activities in the districts and sub-counties.

Tentative conclusion on LGDP II, Uganda

As mentioned above, LGDP II tries to address many of the traditional criticisms of CB and the design ensures an approved framework; CB has a clear purpose through the link to the CG (improvement of institutional performance to gain access to capital grants); a certain quality of CB is ensured through standardisation of training courses and certification of training providers; CB is an integrated part of implementation of the District Development Plan; and the coverage of the CB is broad thanks to the use of the District Resource Pools.

The design allows ample training and induction for elected councillors alongside training of LG staff and it is crucially important not to “leave the elected councillors” behind in a development process as they may otherwise seek to derail or backtrack.

LGDP II is in its second year of operation so final conclusions can only be drawn in a few years but the start has been promising although it has proven difficult to reach all the sub-counties.

The Co-ordinator of LGDP II, Mr. Martin Oloo, MOLG in a review of some of the programmes leading to the eventual development of LGDP supports the tentative conclusions with these lessons-to-learn:

“Initially LGs thought it would only be appropriate to build the capacity of the technical staff and less of the elected officials (politicians). Experiences have demonstrated otherwise, because the capacity of LG should be built as one system. In the case of Uganda the LG system consist of the technical staff, elected officials (politicians), LGs statutory bodies (such as the LGs Tender Board and the Public Accounts Committees), and the private providers such as private contractors, NGOs, and CSOs. The capacities of these stakeholders need to be built equally so that they are able to play their roles effectively in the function of LGs for improved service delivery. Incapacity of any player in the system would adversely affect the performance of the entire system. This was the case in the first year of the DDP/KDDP implementation where LGs were reluctant to train private service providers. The result was that many young competent contractors who had just graduated from technical schools were unable to bid because they were not exposed to procurement procedures”.

Although capacity building can be demand driven it is also important to provide supply driven capacity building in core areas. Under the DDP/KDDP this included planning, financial management, procurement and contract management. The most cost effective and fast way

used for building the capacities of the various layers of LGs was through a cascade approach. At the District level the capacity of a core Training of Trainers (ToT) teams called a district resource pool team was established. The primary idea was that they should be able to cascade capacity building activities to the lower LGs²⁶.

2.2.5 Tanzania

In Tanzania, a multi-donor funded programme – Local Government Reform Programme (LGRP)²⁷ – is the most comprehensive capacity building programme in Tanzania. It had initiated training and capacity building for LGs some 4-5 years prior to the start of the Local Government Capital Development Grant System (LGCDG) in 2004 of which the World Bank support Local Government Support Programme (LGSP) is an important part.

LGRP uses a more traditional approach with supply driven CB. Under the programme, big, nationwide training programmes were developed and implemented e.g. for training grassroots in local democracy, training of village executive offices, and training of wards. Additionally, targeted programmes have been developed to enhance work with legislation, development planning, financial management etc. Much work has been done to develop courses that should train councillors how best to implement their tasks.

A Training Policy and Programme study in 1998 recommended that a national local government training policy should be introduced for Tanzania. This recommendation has never been implemented so an overall framework for local government CB is still missing in Tanzania.

Instead, a policy was designed to implement the decentralisation reform by having the LGs going through 17 steps. This evidently provided some guidance as to which institutional competences are needed to progress from one step to the next and hence what form of CB is needed. 38 LGs (out of the total 117) were selected as frontrunners in this reform process and they are on the last steps, while others should gradually tune into the process as they “ripen” for this.

The LGRP was the key instrument to bring LGs through the different steps and for this and other purposes so-called Zonal Reform Teams (ZRT) were created. To assist the LGs in their step-wise reform process the ZRT used technical assistance and training.

Prior to the launch of LGSP/LGCDG most of the local government CB activities suffered from many of the same weaknesses as were listed in the start of this chapter – supply driven, integrated into projects as side effects, and fragmented. The same problems as are outlined in the WB ODA report was also present in many of the District Development Programmes (Ireland, the Netherlands) – CB was provided without a clear link to investment opportunities and key activities.

The existence of LGRP did however give CB a home in the form of a CB desk, but as LGRP in reality functions relatively isolated from PO-RALG²⁸ – its mother ministry – the CB is not nearly as well anchored in PO-RALG as is the case in Uganda. Hopefully LGSP can have the

²⁶ Martin Olaa: “Lessons from Experiences in Decentralising Infrastructure and Service Delivery in Rural Areas – Uganda Case Study”, October 2003 – DDP: District Development Project, KDDP: Kotido District Development Project

²⁷ The experiences from LGRP are reflected in the regular reports of LGRP, the preparatory work of LGSP and in the “Comparative Analysis of Decentralisation in Kenya, Tanzania and Uganda”, Country Study - Tanzania, July 2004, p. 155-57

²⁸ PO-RALG: President’s Office – Regional Administration and Local Government

same effect as in Uganda of enhancing demand driven CB as there is a clear stimulus for targeted CB – access to CG!! This last link has been missing.

The LGSP/LGCDG has not yet formulated a strategy on how to reach the villages. As mentioned above, “District Resource Pools” may reform this role in Uganda. In Tanzania, the ZRTs and in particular the 21 Regional Secretariats²⁹ each with some 15-20 technical/professional staff might be the right institutions to form outgoing teams of to handle CB in the sub-district level under LGSP, but this decision is still pending.

LGSP designed the following CBG menu with 40% of the grant reserved for Lower Local Governments:

| Menu for the Capacity Building Grant³⁰ | |
|--|------------------------------|
| CB activities | Share of the CB grant |
| Professional Career Development | Max. 15% |
| Skills Development for councillors and staff | Min. 50% |
| Technical Assistance and other forms of CB activities | Approx. 15% |
| Re-tooling | Max. 20% |

Due to the previous activities of LGRP, it was decided to develop a smaller number of standard training programmes – in total 10 currently tendered out for preparation in Tanzania. Apart from this it is the intention to use very much similar procedures as in Uganda in order to enhance demand driven CB and the same link between access to CG and CBG exist where the CBG should be used as a means to enhance good performance and thus gain access to the CG.

2.2.6 Sierra Leone

Sierra Leone is at the very early start of its decentralisation reform that only picked speed in 2002 when the WB started the Institutional Reform and Capacity Building Programme (IRCBP).

CB is not surprisingly supply driven which makes a lot of sense in a country that have only seen the first round of democratic local government elections. The primary task is hence to provide elected councillors with knowledge about their roles and responsibilities and generally to sensitize them to the work ahead. At the same time it is also important to provide key staff categories with basic knowledge about laws and regulations, financial management, development issues, and interaction with the councillors.

The IRCBP has developed and staffed a CB office that has developed an ambitious training programme but still needs to formulate a strategic framework for the local government CB.

2.2.7 Ghana - Institute for Local Government Studies (ILGS)

Ghana represents an institutional approach to training and CB in LGs.

ILGS was established by law in 2003 following a “tradition” as the Ghana Institute of Management and Public Administration (GIMPA) was also established by law. The institute has a professional core staff of approximately 20. ILGS is managed by a Council with 11

²⁹ Regional Secretariats are deconcentrated arms of central government

³⁰ LGSP Project Appraisal Document

members in which MLGRD (Ministry of Local Government and Regional Development) is represented by the Chief Director and NALAG by the General Secretary.

The key emphasis of ILGS is on training and education – the research is seen as a supportive function. ILGS offers training in 11 core areas – of these the most topical currently are development planning, financial management and planning, public-private cooperation, good governance and leadership.

Training courses are normally implemented in 3 geographical areas that capture 90% of all districts, or in all the 10 regions. What approach is preferred depends upon number of participants in the target group, and the depths and details of training. ILGS has established a network of practitioners that can assist in implementation of training courses around Ghana.

Approximately half of ILGS' activities are funded through the DACF (District Assemblies Common Fund³¹), the rest by LGs and/or donors.

ILGS is currently in a situation where it needs to decide if it should to develop diploma courses. That would necessitate a new wing of ILGS and may have some negative ramifications for the LG training activities.

Only time will show if the institutional approach in Ghana can provide the same results as in the non-institutional approach in e.g. Uganda. Undoubtedly both approaches have their benefits and pitfalls, but experience from Europe show that an institutional approach can provide good results³².

2.3 Potential tensions between longer term LG CB objectives and shorter term LG service delivery objectives

There will often be a tension between long-term local government CB and short term service delivery objectives. The coming World Bank support to Sudan for local service delivery has identified this tension, and goes for a two-track approach, whereby the LGs are used as service delivery responsible entities in areas where they have the basic minimum capacity in place. In Tanzania, the same approach was originally planned with the LGSP, whereby only the LGs with a minimum level of capacity would receive the discretionary non-sectoral development grants. However, this approach was quickly changed (the programme replicated/up-scaled) as there was a strong wish to streamline and mainstream all the multiple district support programmes to one common scheme.

In countries like Tanzania, Uganda and Malawi there are obvious conflicts between the LG institutional approach, the local development fund approach, and the social action/community fund approach, which may potentially undermine the possibilities to build up the capacity of viable LG institutions. A study of the social action fund and the links to the LG approach is ongoing under another assignment, but without being too premature, it is probably possible to conclude that an approach whereby LGs' systems are utilised to the extent possible if they have a basic capacity for service management and organisation (not necessarily production, which can be contracted out), including funds transferred through a

³¹ The Constitution in Ghana prescribes that at least 5% of the public budget should be transferred to LGs through a so-called Common Fund that can be used for different purposes.

³² In Denmark, two national LGAs in 1967 formed the Local Government Training Centre that since has been a vanguard (in close cooperation with e.g. LGDK) in development of training courses. With a regional network training has been delivered both centrally and locally.

system using the government procedures - thereby avoid by-passing all existing institutions to get fast results that for the same reasons may be unsustainable.

In special cases, like in a few of the LGs in Uganda with severe insecurity, some of the LGs in Sudan with severe problems, etc., alternative arrangements, like the social action fund approach will have to be considered in an interim period, until LGs have the possibilities to document a minimum level of capacity. However, it should be recognized that a certain “learning by doing” approach will be appropriate. In some countries, like Uganda and Tanzania, the two approaches have been in competition and applied within the same territories, without sufficient coordination and views on the mutual incentives and impact – a problem now being addressed. A study has been launched in both countries to try to “harmonise and synchronise” the approaches.

The social action fund approach may have negative overall repercussions for establishing a sustainable LG system. When significant amounts of funding are provided to local areas through a social action fund (with higher amounts per capita than e.g. a LG development grant approach this undercuts the incentives of LGs to enhance their own revenues and performance, which in a long-term perspective will jeopardize the sustainability of the entire LG system.

2.4 Viable local governance requires empowered and effective local governments as well engaged society

The Ugandan system of LGs have attempted to facilitate the involvement of civil society, but it is clear that more could have been done. Part of the CB support in LGDP 1 was provided to train the private sector to enable them to respond to the tender procedures and bidding process, prepare documents etc. Support has also been rendered to set up project implementation committees to supervise and maintain projects, involving stakeholders in meetings (planning, budgeting etc.). The LGs have been incentivised to involve citizens and the civil society in information sharing, improved communication, involvement in decision-making etc. LGs have been trained and supported with tools in participatory planning and budgeting etc. and the central government and LGs have increasingly provided more information to the public about transfers of funds and budgets. Finally, the basic tools such as participatory planning and budgeting guidelines and manuals have been issued with increasing quality and dissemination.

The LGDP –II has further increased the attention of the involvement of citizens. Example of Performance Measurement in Uganda LGDP II creating links with citizen involvement are: One of nine performance measures are: *Communication and Accountability Performance* where local authorities have to demonstrate how they have made information easily available to the population (for instance by way of posting of plans, approved projects, members of project management committees etc. on public notice boards) and have to make the final annual accounts submitted to the Auditor General available as well as quarterly accountability statements. Another performance measure is: *Procurement Capacity and Performance* where it is controlled that local authorities adhere to good procurement practises, including publication of a list of pre-qualified companies. The outcome of the annual assessments of LGs create great public interest and badly performing local governments certainly will have to answer to the local and national press and that provides a good basis for the local population to gain more access to information with a means to ensure better adherence to the performance criteria next year.

In connection with this it is worth mentioning that the Local Government Act in Uganda stipulates the establishment of a Local Government Public Accounts Committee composed by non-council members, whose role is to review the performance of the local authority in question and report to the Minister for Local Government about this. The Minister will in turn submit an overall report for all local authorities to the Parliament where it creates great debate and this is certain to be reflected in the press.

Finally, the focus on involvement of civil society is also reflected in the list of 26 standardized training courses where 2 specifically address this issue and the topic is represented in many other courses.

This has had a certain impact on the level of participation, but is an area in need of further focus and support. A number of donors have supported and planned further support in the field of engagement of civil society in LG matters, but this is an area in need of better coordination.

In Kenya, the LASDAP (participatory planning process) has also focused on improved involvement of the citizens in the planning process, and has had a significant impact on the level of participation, where citizens are seriously involved in the priority setting for the first time, supported by the incentive scheme under the Local Authority Transfer Fund, mentioned in earlier in the report.

The problem is often that no baseline studies exist so that progress under decentralisation is difficult to measure. In Sierra Leone, this situation is being corrected on the basis of a survey of 7,000 households from all 19 Councils but specific indicators may have to be added to capture different aspects of citizen participation.

2.5 Ownership is key to success

There will normally be a transition process from supply to demand driven CB, but it varies much from country to country how and when such a transition can take place and a mixture of these instruments will often be preferred. Factors influencing that time of transition are:

- How institutionalized is the CB market (are there relevant training institutes?)
- Are there enough CB providers (non-state and state) on the market and around the country to create competition and ensure satisfaction of the demand?
- Are LGs capable of buying in CB service; are procurement procedures in place and well-known in LGs?
- Are LGs capable of making a CB plan and organise the CB?
- Have LGs fund to buy CB for?

Countries are very different in this context. Tanzania has many training and education institutions both in the capital and in the provincial capitals, while Uganda had few at the start of the decentralisation process, but have experienced a rapid expansion of providers.

In our view CB for LGs should have a balance between supply-driven and demand driven CB. The repetitive LG elections necessitate regular induction that should be done by the relevant ministry or the LGA or a national LG Institute (as the one in Ghana) as well as information/training on new laws and regulations.

The best way to launch demand driven CB to LGs is by creating a framework as in Uganda that provides freedom to LGs but within certain limits provided by the CBG menu (menus from Uganda and Tanzania were presented in the report). It is also important to link CB to provision of development grants thus creating good incentives for enhanced performance through CB.

As mentioned above, during the first two years of LGDP II the number of certified CB providers has increased from approx. 50 to about 80, so the early results provide evidence that a CBG with a standardized menu of training courses encourage more training providers to be appear on the market.

The conclusion is that it cannot be mathematically proven and measured when to progress and when to move towards a more demand driven CB approach. There will always be risks involved. LGDP II provides in our view a good model for a safeguarded progress towards demand driven CB – an approach that is also welcomed by the LGA in Uganda.

CB grants can be launched in most countries but they require oversight and coordination support from the local government ministry to develop safeguard measures as in Uganda.

2.6 Important with Realistic Entry Points

What approach to choose for CB to a high extent must depend upon the history and preconditions of the individual countries. Typically, countries move from project/sector/area based capacity building to generic and systemic support and from supply driven to demand driven approach as the decentralisation systems mature.

The fairly negative experiences from a high reliance on supply driven CB without incentives have moved the process in the direction of the LGDP demand driven approach, and the experiences from Tanzania and Uganda are now being tested or considered tested in other places, like Nepal and Bangladesh and more recently the Philippines and Sudan.

However where the general capacity is low, e.g. where there is no HR functions in the LGs, there is a need for more “guidance” and hands on support in the field of CB support, enhancing the need to design a careful menu for a CBG and implement the system with close support, supervision and control.

Various reviews of the performance-based systems have shown that fiscal transfers linked to performance is a positive factor in promoting incentives to improve LG performance. However, in order to be fully effective, it is important that there is certain LG control/autonomy on the staffing situation, including hiring, firing, promotion, capacity building, etc. If e.g. the CG can transfer staff every moment, it is hard to build up a sustainable system as is the case in Tanzania where Chief Administrators are centrally appointed and moved around by the Central Government. Such factors should also influence the design of the CB system.

Typically, the sector specific capacity and the generic capacity building go hand in hand, where the sector ministries are responsible for supporting and mentoring the LGs within the sectors and MOLG/MoF in the generic areas, like planning, budgeting, good governance etc. The sector specific CB would normally come first as donors have supported sectors in many years before the start of decentralisation and devolution. It cannot be said that this paves the way for generic training when decentralisation is decided on, but there are valuable experiences to inform on the proper design of generic CB.

2.7 How to organize CB for local government?

Different approaches are used around the world. Some countries from scratch based the key part of CB on existing institutions or institutions that were established for this purpose – e.g.

the LGAs in Denmark in 1967 established their own Local Government Training Institute to help members prepare for implementation of the first wave of fundamental LG reform in the country. Today, this institute is supplemented and challenged by a number of other training providers, like universities, labour unions, private companies etc. The LGAs perform most of their training activities through the Institute.

The conditions of success for this approach is availability of LGs to buy CB – otherwise a special institute will mean no significant change from supply to demand driven training. ILGS in Ghana and many of the training institutions in Tanzania seem to be in a situation where the members lack sufficient funds to make a real jump to almost full demand driven CB. With a significant fiscal decentralisation the Danish LGs have had the funds to buy the kind of CB they need and Denmark's nature of a competitive society has prevented the Institute from ever having a monopoly, so competitive tendering is the rule more than the exception.

Some countries from the start of a reform process have no national training institutions, like Uganda. In such a situation, it was decided to support and use many smaller training providers through LGDP II with a view to getting competition and increase the capacity to deliver CB, while some of the big and established players, like Uganda Management Institute and Makerere university compete on the market as anyone else. With increasing numbers of certified training providers the strategy has so far been successful although it is too early to draw conclusions.

One key question is however how to deliver CB to the lowest level of LGs that in Africa traditionally are the villages of which there may easily be more than one thousand units. Some kind of a regional based approach seems most feasible in order to avoid the high costs of capital based, extensive training providers travelling to the villages.

In this situation, the LGAs may take a lead or regionally based training institutions if they exist (as they do in Tanzania). In Uganda, ULGA had decided to establish 4 regional training centres which are not physical buildings but institutional units. The idea is to have these organize the local resource pool³³ (in districts) – consisting of district council staff, line ministry staff, representatives of NGOs etc. – with a view to having these delivering the requested training in villages. This will at the same time overcome potential local language problems and be cost effective. It is however important to implement some T-O-T for the local resource pools and here universities, LGAs and ministries may play an important role. These should also play a role as subsequent quality controllers, jointly with the established HRD units in Districts.

The use of trained and experienced practitioners as trainers for LGs holds enormous potentials. The fact is that LG staff and councillors do not like theoretical explanations too much but would rather like discussion of practical examples where experienced LG staff have advantages. This potential has not been developed at all or very little in Africa whereas it is common practise in many European countries.

The Danish example also included an element of local delivery, where the LGDK established regional LG associations under the national umbrella to among other things organize training, seminars and conferences for the member LGs in the area.

³³ Support to establishment of these resource pools has also been rendered from the LGDP I and II.

Ministries can play a role in sector training where they preferably also should mobilize LG practitioners to support their own staff in training. The local government ministry has a natural role to deliver training for newly elected councillors but this training should be performed in a partnership with the LG association(s) to strengthen the messages and improve the cooperation between the ministry and the LGA(s).

2.8 Conclusions and way ahead

- The key element in CB is to develop a methodology that provides LGs with a drive to use CB in a targeted way to enhance their institutional performance. Institutional performance does not come around without relevant HRD so a combination of training of individual LG staff (and councillors) and broader capacity building activities is called for, including institutional/organisational development. In our opinion a programme like LGDP II in Uganda provides this drive by linking the allocation of capital grants to the institutional performance. This link sets out quite clear goals of and directions for the CB as the role must be to help remedy institutional deficiencies by training and institutional development.
- Demand driven CB in local governments can best be stimulated by providing a CB Grant as in LGDP II so that LGs have their own funds to dispose of. This CBG should come with a CB menu that provides both limitations and freedom. Technical assistance can be used as well as long-term training of key staff but the main emphasis is on short-term courses and support. Important is that LGs are themselves in the driving seat as the CBG provides them with funds to buy in the required CB.
- Donors should assist in development of a National Framework for Local Government Capacity building that defines the goals, ambitions, methodologies and roles of respective partners. The relevant ministry – normally the Ministry of Local Government – should be supported in taking the management of the formulation process.
- To ensure a certain quality of training courses it is a good idea to elaborate generic standardized training courses and manuals with the relevant ministry taking the lead in formulating the framework for standardization. If the training courses are made in a modular fashion they can be combined across to fit the different demands of different clients in local governments. It is important to involve the sector ministries in this work so that their demands for training courses may partially be covered and so they do not feel left out in the process.
- To ensure a certain quality in training delivery it should be considered with regular intervals to run a pre-qualification process for training providers.
- To ensure a establishment of a fair market for local government training and CB it is important to use public tendering procedures for CB activities in the hope that these hopefully can help prevent and/or diminish fraud and tampering with funds.
- Key to CB in local government is to find a methodology to bring CB to the lowest level of administration. This can be done in different ways but it is important to find methods that are not too expensive and are locally anchored. The potential methodologies in Uganda and Tanzania of forming teams at district or regional levels is cost-efficient and may have the added advantage of providing trainers that can also speak the local language(s).
- Demand driven CB in local government is definitely to be preferred in the medium to long-term perspective. It is however without any doubt that some supply driven CB is needed at the start of a decentralisation process as knowledge almost always will have to be built up from scratch as is the case in Sierra Leone and e.g. Sudan. LGs are also characterized by having regular elections so up to half of the elected LG councillors

will be changed at regular intervals. This in itself necessitates supply driven training to ensure that newly elected councillors receive a minimum knowledge about their tasks and responsibilities. The weight between supply and demand driven CB will change over time but there should always remain elements of supply driven CB.

- Demand driven CB for LGs will however only be successful if appropriate systems of financing, incentives, oversight and quality control is developed.³⁴
- CB of LGs is a long-term endeavour, actually never ending due to the repetitive local government elections and the resultant need to train the newcomers.

Our recommendations go further than in the OED report but we fully agree with the need to having countries take the lead in developing capacity building efforts; to set priorities for capacity building measures; to connect measures aimed at needed institutional, organizational and human resource developments; to strengthen incentives for improved performance; and to transform traditional tools, such as technical assistance and training, to support the broadened capacity building agenda³⁵

³⁴ This is also the conclusion in the “Comparative Analysis of Decentralisation in Kenya, Tanzania and Uganda”, Draft Synthesis Report, July 2004, p. 69-71

³⁵ OED op.cit. p14

3. Fiscal Transfer Systems, Incentives and Links to Capacity Building

3.1 Introduction and Concept

As intergovernmental fiscal transfers³⁶ are among the main local government (LG) revenue sources in the developing countries and account for more than 60 % of the total LG sources in many African countries, it is utmost important for the success of the overall decentralisation process, that the transfers achieve their objectives and promote the right incentives³⁷. Despite this fact, many programmes aimed at fiscal decentralisation have been introduced without proper focus on the *incentives* they create in terms of revenue mobilisation, administrative performance, accountability, etc.³⁸

However, in the more recent years a number of innovative reforms and good lessons have been introduced in some of the African countries, which warrant further attention and which have been studied, applied and adjusted in other parts of the World. The reforms with performance-based grant systems (PGs) have been introduced to promote the LG incentives to enhance capacity and performance, particularly in cases with muted downward accountability and weak local administrations. They have acted as important tools for improved vertical links between Central Government (CG) and LGs and between the LGs and their constituencies.³⁹

The innovative feature behind the new funding schemes is the linkage between the grants to LGs and their performance / capacity to absorb. As documented from the country experiences, below, these systems have shown encouraging results and have a great potential for further application.

PG systems vary from country to country, but the common defining characteristic of these grants is that they are aimed to promote a positive change in some aspects of the performance of the LGs, which receive them or try to get access to them. They may also be used to identify capacity building (CB) gaps and needs of LGs and to provide input to the overall M&E and supervision systems. It is important to distinguish such a performance based system from a system of indicators, which is measuring the decentralisation environment (e.g. LG autonomy) and/or the level of decentralisation⁴⁰. The indicators used in the PG system have to be under the control of the LGs, objective, transparent and measurable. There are typically generic focusing on key issues like planning, budgeting, financial management, accountability and good governance, and can be elaborated to promote accountability and responsiveness.

Unlike grants where funds are distributed to LGs simply to give them the means to execute specific functional mandates, PGs *incentivise improvements in performance by linking the LGs' performance in pre-determined areas with the access to and the size of funding*. The system is a move away

³⁶ The terms “transfers” and “grants” are used interchangeably in this note.

³⁷ Please refer to: 1) Steffensen/Trollegaard, NALAD: “*Fiscal Decentralisation and Sub-National Government Finance*”- Synthesis Report, May 2000, NALAD (now renamed LGDK), the World Bank/Danida/USAID for an overview of the finance system in six Sub-Saharan African countries and 2) Steffensen /Tidemand: “*A Comparative Analysis of Decentralisation in Kenya, Tanzania and Uganda*”, Final Synthesis Report August 2004, The World Bank.

³⁸ Cf. e.g. OECD, DAC Evaluation Series – “*Lessons Learned on Donor Support to Decentralisation and Local Governance*”, OECD 2004 and the World Bank Operations Evaluation Department OEC,” Capacity Building in Africa, Advance Copy, 2005, which identifies lack of incentives as one of the major problems in capacity building.

³⁹ UNDP: “*Taking Risk*” – Background Papers, UNCDF, 1999, p.68.

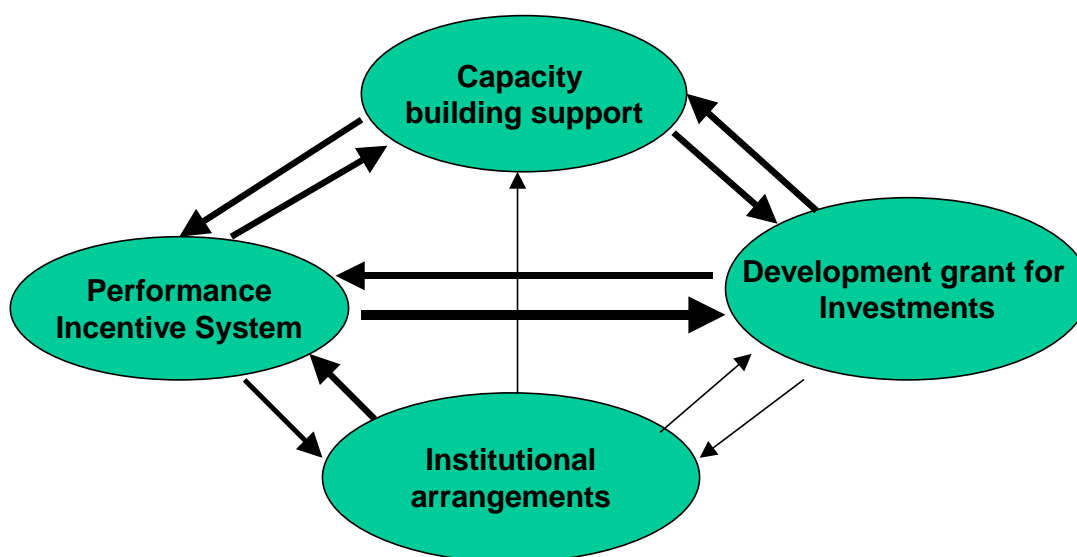
⁴⁰ Steffensen and Trollegaard, 2000, op cit.

from tight ex post control of LGs to strong performance-based incentives, coupled with ex ante monitoring and assessment.

PG systems may be “*multi-sectoral*”, aimed at improving the overall generic institutional/organisational performance of the LGs, or “*sector-specific*”. Most experiences from Africa have been within the first category.

To be most effective, a performance based development (capital) transfer scheme needs to be supported by a strongly coordinated capacity building process and capacity building support to the LG (e.g. in form of capacity building grants) to enable LGs to address weaknesses in capacity and improve performance, and support the LGs to prepare appropriate capital projects (planning, feasibility studies, monitoring etc.), see the diagram below.

Diagram 1 – Components in a Performance Based Grant Allocation Scheme



The local development grant for investments, the capacity building grants and in-built performance incentive systems can be designed to be mutually strengthening and have a significant impact on the basic conditions for LG service delivery. The *credibility* of the assessment of the LGs performance and the institutional arrangements with central support to system development and procedures (e.g. planning, budgeting, accounting and procurement guidelines and support) are pivotal for the success of a PG system.

The system typically encompasses minimum conditions (MCs) of access to grants, which establish the safeguards and incentives to comply with basic legal requirements and regulations, and performance measures (PMs), which are used to adjust the size of the grants and promote good performance within key identified areas. Below is a review of some of the experiences in the East African countries. The system in Uganda, the World Bank supported Local Government Development Programme (LGDP-I and II)⁴¹, which has been applied over several years, and has inspired many other countries, is of particular interest.

⁴¹ The Second Local Government Development Programme is supported by the World Bank (IDA), DANIDA, Austria, the Netherlands and Ireland in the tune of USD 165 Mill. From 2004-2007, PAD May 2003. Other donor agencies, e.g. DFID, USAID, have aligned their support to this transfer scheme. The original ideas behind

3.2 Country Experiences

A number of African countries have experimented with an elaboration of performance based grant allocation incentives, especially addressing the generic elements of the LG administrative performance. Table 1, overleaf, shows some examples on how the various key design parameters have been handled in selected EA countries, where these systems have been tested and applied in the more recent years. Other countries have applied some of the same elements (with conditions) in various transfer systems, e.g. Senegal and Mali, and others have started the design process, e.g. Sudan⁴².

elaboration of PG systems originated from a UNCDF supported DDP/KDDP tested successfully in a few districts from 1997.

⁴² A design team has been launched from July 2005.

Table 1: Overview of experiences from Performance Based Grants⁴³

| Design Features | Uganda | Kenya | Tanzania |
|--|--|--|--|
| Grant/Program | Local Government Development Programme (LGDP I and later II) – covers all LGs The PG system started as pilot in 1997 (DDP) in few districts | Local Authority Transfer Fund (LATF) Start: 2000/2001 Covers all LGs | Local Government Support Programme (LGSP) – Capital Development Grant and Capacity Building Programme Start: 2004 - Will cover all LGs during 2005. |
| Type of capital grant and investment menu | Capital grant for capital investments with a provision for LGs to spend part of this for “investment servicing costs”, i.e. preparation, planning and monitoring of projects (max. 15 %). These are funds not for other recurrent costs and for operational and maintenance costs. Non-sectoral grants, i.e. the funds may be used to finance capital investments within the menu of all LGs expenditure assignments Incentives for LGs to focus on poverty related investment areas + negative list | Capital and recurrent costs Incentives to focus on capital investments, service delivery and debt recovery and maximum ceilings on LG expenditures on salaries of the total budget etc. | Capital development grant with provision for investment servicing and monitoring costs (max. 15%). These are funds not for other recurrent costs and for operational and maintenance costs. Non-sectoral grant Incentives to focus on poverty sensitive areas + negative list |
| Size of the Grants | 1 – 2 USD per capita | Approx. 2 USD per capita | Average 1.5 USD per capita |
| Allocation criteria | Clear formula: Population and land (size of the LG territory) + adjustment for performance | Clear formula: Basic lump sum, population, and urban weight (size of the urban population) + adjustment for performance | Clear formula: Population, size of the land and poverty (number of people below the poverty line) + adjustment for performance |
| Capacity building support and grants | Capacity building grant to enable LGs to address the performance gaps Demand driven, use of grants according to local priorities with central support and a clear CB menu. Please refer to Chapter 2 for a review of the CB menu. | Supply driven and no capacity building grant | With LGSP a CB grant to LGs will be available (demand driven use according to local priorities) with a clear menu for utilization. Significant support from the Reform programme to elaboration of guidelines, training materials etc. and supply driven support with key areas. Please refer to Chapter 2 for a review of the CB set-up. |
| Examples of | <input type="checkbox"/> Three year rolled development plan | <input type="checkbox"/> Budget estimates submitted to the Ministry | <input type="checkbox"/> Functioning political council |

⁴³ Please refer to Annex 2 for an overview of examples of the minimum conditions from various countries.

| Design Features | Uganda | Kenya | Tanzania |
|--|--|---|---|
| Minimum Access Conditions (MCs) | <ul style="list-style-type: none"> <input type="checkbox"/> Functional technical planning committee <input type="checkbox"/> Draft final accounts on time <input type="checkbox"/> Functional internal audit <input type="checkbox"/> No nominal decrease in own source revenues <input type="checkbox"/> Co-funding and special accounts | <p>as stipulated in the budget guidelines</p> <ul style="list-style-type: none"> <input type="checkbox"/> Creditor clearance letter from the statutory creditors (agreements on how to address the debt in a strategy) | <ul style="list-style-type: none"> <input type="checkbox"/> Development plan approved by council on time <input type="checkbox"/> Position of the council director, treasurer and internal auditor substantively filled <input type="checkbox"/> Final accounts submitted for audit on time <input type="checkbox"/> No adverse audit report <input type="checkbox"/> No financial irregularities <input type="checkbox"/> Internal audit in place <input type="checkbox"/> Legally constituted tender board |
| Type of performance measures (PMs) | Generic focusing on institutional improvement | Generic (non-sector specific areas like budgeting and debt recovery get special attention) | Generic focusing on institutional improvements |
| Examples of areas of performance measurement | Planning, budgeting, financial management, tax effort, poverty focus in expenditure allocation, good governance and transparency, gender and accountability | Financial management and final accounts, debt recovery, revenue enhancement initiatives and citizens' participation in preparation of the service delivery plan | Planning, budgeting, financial management and tax effort, poverty focus in allocation, good governance and transparency, gender and accountability |
| Adjustment mechanism of the grants (impact of the assessment) | <p>Minimum Conditions (MCs): Switch on/off for access to grants</p> <p>Performance Measures (PMs): Adjust the grant by +20/0/-20% against the results of the performance assessment</p> | 60 % allocation on basis of meeting the MCs and additional 40 % based on performance within key areas | <p>MCs: Switch on/off for access to grants</p> <p>PMs: Adjust the grant by +20/0/-20%</p> |
| Counterpart/Matching funding by LGs | 10 % in cash | No, although strong indirect incentives for contribution towards development are present through the MCs. | 5 % in cash |

| Design Features | Uganda | Kenya | Tanzania |
|--------------------------------------|---|--|--|
| Method of assessment | External annual assessment in the field with teams of private consultants contracted and experts from LGs, and Central Government (5 people in each team) MOLG ensures that a resource pool of people is available for the consultants (2000-04). According to recent changes MoLG is in charge of the assessment and a private QA team is assuring the quality of the assessment. The results leads to decisions on access to the grants on adjustment of the grants in the following Finance Year. | Annual assessment of the conditions by the head-office/Ministry of Local Government/ KLGRP (programme unit). The assessment determine the access to and level of grants | External annual assessment in the field with teams of private consultants contracted and resource persons from LGs, and central Government (4 people in each team) First assessment carried out in 2004. The assessment determine the access to and the size of the grants |
| Assessment Manual | Yes very elaborated with clear indicators and guidelines, check lists etc. | Clear indicators written in the grant documentation | Yes with guidelines and indicators |
| Piloting or nation-wide | First piloting in few districts 1997-2000, gradually up-scaled and from 2003 nation-wide | Nation-wide | Phased in, will over the coming years cover all LGs in the country |
| General experiences | <ul style="list-style-type: none"> <input type="checkbox"/> Strengthened legal compliance; <input type="checkbox"/> Documented significant positive impact in areas like planning, financial management, transparency, poverty focus in investments and accountability. <input type="checkbox"/> Introduced a good sense of competition across the LGs. The system is evaluated to achieve its objectives. The lessons from the system will be applied in other grant schemes. <input type="checkbox"/> Strengthened local accountability | <ul style="list-style-type: none"> <input type="checkbox"/> Tremendous impact on the financial management performance <input type="checkbox"/> First time in many years that LGs have initiated participatory planning procedures, provided accounts and started addressing their debt problems. | <ul style="list-style-type: none"> <input type="checkbox"/> A smaller piloting of similar programs has been successful. <input type="checkbox"/> The need for such a system to provide discretionary funds and to strengthen the incentives have been documented in various studies; <input type="checkbox"/> The large scale LGSP has just taken off; <input type="checkbox"/> The design has meant that is has been possible to bring most of the donors behind this unique transfer scheme. |
| Supported by systemic reforms | <input type="checkbox"/> Yes: through the components on support to the overall decentralisation process, yearly reviews of the process, support to development of budgeting, accounting, procurement guidelines, M&E systems and support to the key ministry: Ministry of Local Government | <input type="checkbox"/> Yes: support under the KLGRP covering capacity building of the LGs and the Ministry of Local Government, development of budget guidelines and other regulations, IFMS, etc. | <input type="checkbox"/> Yes: support to development of various guidelines and coordination, however most of this support is covered by the general Local Government Reform Programme, i.e. there is going to be synergies between the grant programme and the systemic reforms. |
| Funding and coordination | <input type="checkbox"/> Government + a number of donors (World Bank, Danida, Netherlands, Austria, Ireland etc.). Several donors align their support with the LGDP approach. | <ul style="list-style-type: none"> <input type="checkbox"/> Government funded, fixed percentage of the internal GoK revenues <input type="checkbox"/> The concept will attract additional support in the near future (supported by EU). | <ul style="list-style-type: none"> <input type="checkbox"/> Government + a number of donors (World Bank, Netherlands, Ireland, Finland, etc.) is supporting the elaboration of the new scheme. <input type="checkbox"/> The mechanism has provided a vehicle for strong |

| Design Features | Uganda | Kenya | Tanzania |
|-----------------|---|-------|---|
| | <ul style="list-style-type: none"> □ The success of the scheme has attracted funds from several donors, and enabled the GoU to cover the entire country. | | donor coordination and mainstreaming/ institutionalisation of the many smaller district support programmes to one common window for support. |

Although there are country specific nuances, the LGDP-II (Uganda) and the LGSP (Tanzania) have many similarities in the basic design.

MC= Minimum Conditions. PM = Performance Measures.

In Uganda, Kenya and Tanzania⁴⁴, clear minimum access conditions for grants are applied and the size of the development grant is adjusted against the performance of the LGs within key performance areas. A number of countries⁴⁵ have initially applied only minimum conditions for eligibility and during subsequent phases some of these have introduced more qualitative and complex performance measures like the ones in Uganda and Tanzania. Hence, there is a clear tendency to develop and fine-tune the performance-based systems once they are in place, and to elaborate second and third “generations” of the systems.

Most experiences from PGs are within the area of non-sectoral discretionary *capital* grant with a broad LG investment menu. There are few examples of large-scale performance based *sector* specific recurrent and capital grant schemes. However some countries have experimented with this as well, e.g. Uganda in the area of school construction (school facilitation grants) where LGs with good performance in terms of input/output ratio have been rewarded with extra funds, and there are initiatives underway to extent the good lessons learned from the non-sectoral development grants to all other recurrent and development grants in the country.⁴⁶ There are also plans in Uganda and Tanzania, to link the flexibility in the utilisation of grant funds/the level of *autonomy* against the LG capability and performance within key financial management areas.⁴⁷

These systems of PGs have applied *generic* institutional performance measures, within areas such as planning, financial management, fiscal capacity and LG tax effort, expenditure prioritisation (reward for poverty focus in expenditure allocation), transparency and accountability. Table 1, above, shows examples of some of the access criteria applied.

Most countries have combined the PG systems with various types of *capacity building*, either demand driven, supported by genuine capacity building grants to LGs, and/or more supply driven centrally managed “backstopping” support from the centre to LG to enable the LGs to improve the performance and respond to the incentive systems. The requirements for LGs to get access to this support have typically been more lenient to ensure that most LGs get enrolled in the incentive scheme.

A lot of efforts have been made on ensuring that the actual *assessment* of the LGs is surrounded by a strong credibility and integrity and accepted as valid and highly professional by all parties involved, i.e. the citizens (and NGOs/CSOs), the LGs, the central governments and other contributing agencies/donors. There has naturally been much more focus on these systems - e.g. in form of competition amongst LGs, discussions, dialogue, etc. and a stronger pressure on the entire assessment system- than is the case for other systems of performance monitoring such as “general” M&E and inspection systems. To ensure credibility, systems are typically designed in a way using a multidisciplinary external team approach with team members from various institutions (private as well as public) and some checks and balances, e.g. in form of QA of the results.

⁴⁴ In Tanzania, a new system will be gradually rolled out, starting in FY 2004/05.

⁴⁵ E.g. Tanzania, Senegal, Bangladesh and Cambodia. Development of PG is also considered in other countries, e.g. Sudan.

⁴⁶ Based on the recommendations in the Fiscal Decentralisation Strategy (FDS) “: *Fiscal Decentralisation in Uganda –Strategy Paper*”, March 2002, Fiscal Decentralisation Working Group. One of the challenges in Uganda is to reduce the large number of conditional grants with multiple modalities and to increase the LG autonomy for local priorities. The LGDP PG system supports this together with other initiatives under the FDS implementation. It is also discussed to expand the generic indicators with some sector related output indicators of performance.

Some countries, like Kenya⁴⁸, use “desk reviews” based on information submitted by the LGs to the central government, validated and assessed, whereas others (Uganda and Tanzania) are using regular (annually) assessments with field-visits, where teams of assessors visit each LGs for a few days. A desk review will typically limit the range of MCs and PMs to the more simple easily testable indicators. More qualitative measures require a more thorough assessment of the actual scores. However, some countries have mixed systems where e.g. the conditions and utilisation of the conditional recurrent grants are tested from the desk by central government controls from the head quarters, ex post audits and general inspections (sample tests); and whereas the performance related to access to non-sectoral block grants is reviewed by assessment teams, which are reviewing the details in the actual LG performance through field-visits.

The impact of the systems have been notable, particularly in Uganda and Kenya⁴⁹ where local development plans are now being elaborated with larger involvement of the citizens, more transparency and inclusiveness than prior to the introduction of the systems. Final accounts are being produced, mostly on time, financial management weaknesses are being addressed, internal audit functions are being established, and councils and committees, tender boards and other statutory bodies have started working, etc. The improvement in these areas over the last 3-4 years have been significant and the impact of the PG system well documented.⁵⁰

3.3 Lessons Learned and Recommendations

Institutional performance

Performance linked funding has proved to provide LGs with remarkably strong incentives to comply with statutory requirements and improved performance.⁵¹ The lessons learned from the piloting and roll out of PG systems in African countries and other parts of the World have been that these have a strong potential for promoting performance and strengthening of capacity of LGs in key intended performance areas. The PGs have responded to a pressing need to develop systems and incentives to address the muted downward accountability and lack of interactions and control in the relationship between the LG councillors, LG administration and the citizens.

Incentives to improve LG revenue mobilisation

The establishment of the right incentives to collect LG taxes has been a great challenge⁵², especially in the cases of Uganda and Tanzania, with large increases in transfers from the CG in the most recent years⁵³, non-conducive legal framework for LG tax assignments, political interference in the tax collection etc. The PG systems have focused on the critical linkages between LG own source revenue mobilisation and grants and can be designed to incentivise mobilisation of local sources and enhanced

⁴⁸ Tanzania does the same for the smaller government funded development grants where certain minimum conditions apply – a grant which over time will be folded in to the larger performance based capital development grant under the LGSP, cf. Table 1. In addition many countries use the desk review method in the control of the compliance of LGs with the conditions in the recurrent conditional grant schemes.

⁴⁹ In Tanzania, there the experiences are still limited as the system has just started, but a smaller piloting, supported by UNCDF provided useful experiences.

⁵⁰ Please refer the footnote above. Similar experiences are seen from other parts of the World, e.g. in Bangladesh.

⁵¹ The experiences in this section are documented in various reviews, e.g. in: i) “*Taking Risks*”, UNCDF, 1999, ii) *Programme Review of the LGDP*, February 2002 by Steffensen, Ssewankambo and Land, iii) *The Way Forward Study*, January 2001, iv) *Lessons from experiences in decentralising infrastructure and service delivery in rural areas*, UNCDF by Martin O. Oloo, October 2003, v) *Local Government Initiative: Pro-poor Infrastructure and Service Delivery in Rural Asia – A synthesis of Case Studies*, UNCDF, 2004 and vi) Steffensen and Tidemand: “*A Comparison of Decentralisation in Uganda, Tanzania and Kenya*”, Synthesis Report, August 2004 and vii) *Annual LATF Reports from the Ministry of Local Government, Republic of Kenya, LATF*.

⁵² Please refer to Rémy Prud'Homme: “*Fiscal Decentralisation in Africa: A Framework for Considering Reform in Public Administration and Development*”, *The International Journal of Management Research and Practise*, Volume 23, No. 1, 2003 p.24-26, UNCDF, for a more theoretical explanation of the issue.

⁵³ Steffensen and Tidemand, op cit, 2004.

sustainability to address this problem. It can have an impact, but the lessons have been that this initiative cannot alone ensure that the local revenue potential is realised in times with various strong (particularly politically) pressures against local revenue mobilisation. The PG system has typically included two measures: 1) LG co-funding obligations (5-10 %) and 2) minimum conditions/and or performance measures to boost the LG revenue mobilisation. An example of this is in Kenya where LGs are rewarded for preparing revenue enhancement plans and strategies for addressing the debt problems.⁵⁴ In Uganda, it has been deemed necessary to strengthen the tax effort incentives in the present PG system to address the downward trend in LG revenue mobilisation and the MC ‘no decrease in LG own source revenues’ is currently a condition for access to the development grants. In Tanzania, tax effort is included as a performance measure to promote incentives to focus on own source revenues and ensure sustainability and LG absorption capacity of the investments.

In Kenya, the focus on the revenue enhancement strategy and debt recovery, combined with adjustment and improvement of the tax legislation seem to generate some positive lessons. Transfer systems, with tax effort criteria and performance measures for tax collection, have provided initial results in Uganda, but it is expected that decisions to abolish the most important LG tax – the Graduated Tax- in future and high-level political pressure to avoid LG revenue mobilisation may cause a decline in LG own source revenues and is a potential threat towards the entire sustainability of the decentralisation process. The same is the case in Tanzania. The incentives should be combined with reforms to make a more conducive environment for LG taxation and cautious measures, not just to mobilise revenue for the sake of revenue enhancement, but also to do it in a poverty-sensitive, development-oriented fashion, focusing the efforts on the major tax sources, combined with improvements in the efficient utilisation of the collected funds. This requires an enabling legal framework for taxation, as well as capacity building of politicians and staff (especially tax collectors) and last, but not least, strong “moral” support from the top political level and well planned reforms.

Improved governance and accountability

PG systems have started a conducive dialogue on the performance of LGs, promoted competition and discussions on ways and means to improve on performance across the LGs and been a tool for improved dialogue between the citizens and the councillors on how to address the local challenges most efficiently.⁵⁵ Examples of this are the requirements to involve citizens in the planning process, to publish financial information on transfers, budgets, accounts, etc. - initiatives, which have promoted downward accountability and transparency. It has also improved the upward accountability, i.e. the relationship between the CG and LGs as there has been an objective basis for the dialogue and areas identified for support from the center. The LG politicians are now more conscious of the need to perform and to ensure that an efficient local administration is in place, i.e. the dialogue between the politicians and staff has improved and been more focused and target oriented. Finally PG systems are often combined with other innovative initiatives such as establishment of local project implementation committees to ensure care-taking for operational and maintenance of the investments, various means for improved citizens participation and involvement of the private sector in production of services etc. However, it is important to mention that this initiative has to be combined with other means to challenge the rather weak downward accountability in most countries, such as support to citizens to enable them to “voice”, CB etc.

⁵⁴ The problems with the impact of the large increase in transfers to LGs on the incentives to generate own source revenues (perverse incentives) is explained by R. Prud' Homme in “*Fiscal Decentralisation in Africa*”, Public Administration and Development, Vol. 23, Feb. 2003, UNCDF and have been documented in various studies from Uganda and Tanzania, e.g. Steffensen/Tidemand, 2004 *ibid*.

⁵⁵ Steffensen, Land and Ssewankambo, 2002, *op cit*. There is anecdotic evidence, that in some cases, poor performance in the annual assessment has impacted on the LG election results.

Investments and service delivery

The discretionary funding for LG development without strong “earmarking”, provided that the right incentives are in place, have encouraged local priorities, participation and strengthened the focus on investments in key poverty alleviation areas like smaller roads, education, health, water and sanitation and the grants have led to increase in small scale investments in infrastructure and service delivery, i.e. supported a road towards genuine devolution and local self-determination. An example of this is Uganda where the LGs have spent less than 2 % of the total discretionary development funds on administration, but 43 % on road/drainage, 23 % on education, 14 % on water/sanitation and 13 % on health⁵⁶. Similar results are seen from other parts of the world, where LGs have been allowed to make their own priorities under “guidance” of strong incentives.⁵⁷

Links between Investments and Operational and Maintenance (O/M)

As mentioned, the PG systems have been applied within the field of capital investments aimed for increased investments and efficiency in the spending in service delivery and key infrastructure areas. However, the O/M implications of the local investments have been a great challenge in most African countries, especially in cases where LG own source revenues have declined. The PG approach has tried to address this challenge in the grant design in various ways, e.g.: i) in the determination of the size of the grants (e.g. compared to LG tax potential), ii) reviewing the absorption capacity and links to the allocation criteria, iii) increasing the incentives to mobilise LG own source revenues, iv) support from the CG to improve LG planning procedures, and finally v) by development of incentives (rewarding measures) for improved LG good planning and budgeting practices, rewarding LGs which incorporates concerns on O/M. However, this is still an area leaving some room for improvement and sometimes requiring reforms in the systems of LG own source revenues in many African countries.

Capacity Building (CB)

The assessment systems have provided the LGs with a tool to identify their main functional gaps. The systems have also strengthened the LGs incentives to utilise the CB support more efficiently⁵⁸ than was previously the case. The innovation in Uganda with demand driven CB and CB grants have enabled the LGs to address the individual weaknesses and gaps, but have also shown the need for a strong support from the center to ensure a national coordinative framework for capacity building, including support to development of training materials, certification of trainers and support to development of HR and personnel management functions in LGs etc. CB is not treated as a collateral⁵⁹ to the investment operations (development grants) but is an important component in the entire PG system and linked directly with improvements of the main functions and capability of the LGs to fulfil their mandates and objectives.

Assessment of performance

Experiences have shown that the credibility of the assessment of LG performance is vital for success of the system. An impartial *external* highly professional and multi-disciplinary assessment is essential when the results are linked directly to the actual transfer of fiscal means to the LGs⁶⁰. There is a strong pressure on the assessment, especially from the poorest performing LGs, and it is important that the system is surrounded by strong integrity and neutrality. Involvement of LG practitioners in the assessment (as team members)⁶¹ may be a good idea as it ensures local knowledge, legitimacy and

⁵⁶ *“A Comparative Analysis of Decentralisation in Kenya, Tanzania and Uganda – Country Study Uganda”*, by Steffensen, Tidemand and Ssewankambo, August 2004, results from the LGDP I- utilisation of grants.

⁵⁷ E.g. Bangladesh and Nepal.

⁵⁸ Refer to footnote 17 in Chapter 2

⁵⁹ OED, 2004, op cit has documented the weak focus on the capacity building in most WB projects and the problem that CB support is often treated as a collateral to the programme operations, p. 5.

⁶⁰ Documented from the experiences from e.g. Bangladesh and discussions during the preparation of the LGDP in Uganda and the LGSP in Tanzania.

⁶¹ E.g. in Uganda, selected highly qualified district staff used to participate in the assessment of other districts.

internal cross-LG learning and it is often important that the team is composed of members from various systems. Participatory self-assessments may supplement the external assessment and accountability systems, improve the dialogue between the LGs and the constituency, but cannot be applied as a stand-alone arrangement for PG allocation.

Allocation and poverty focus

Funding amounts can be determined and distributed according to clear criteria (formula-based) or on the basis of an ad hoc decisions/case by case. In general, the advantages of formula based systems are widely known. They are more transparent, predictable and equitable, and less subject to gaming, than ad hoc transfers and more suitable for the local planning process. The standard thinking is that PGs should tend in this direction, also as PG are related to institutional performance rather than project specific interventions and the testing in the EA countries have all applied clear and transparent allocation formulas.

There may potentially be some tension between focusing on *performance* and *poverty* targeting. In the long term, of course, the basic rationale for a PG is that unless LG performance improves, service-delivery performance to the poor will suffer even if funds are targeted at poorer areas. However, in the short term, if a performance grant disburses funds to poor LGs on poverty grounds even if they do not meet performance targets, any incentive to improve performance will obviously be lost.⁶² One way of reconciling these objectives, if this is the overriding policy goal, is to include poverty measures in the basic allocation criteria prior to the adjustment for the results on the performance measures. It should also be noticed that some of the in other aspects poor LGs (e.g. in terms of poverty count and or revenues) have actually performed better than more well endowed LGs in both Uganda and Kenya, and there is no direct link between general poverty and possibilities to improve on institutional performance as long as the indicators for performance are reasonable and well designed. Finally, more technical backstopping support could be offered to the weaker LGs to assist them improving the performance.

Possible pitfalls in design

The lessons from the innovations with the PG systems show there are numerous design and operational challenges, particularly to: i) identify the specific indicators for LG performance, ii) design the institutional arrangements, iii) ensure a strong communication of the objectives behind the system and iv) involve all key stakeholders in the grant implementation schemes, and especially v) ensure high credibility of the assessment and vi) decide on possibilities for QA of the assessment, options for complaints - , but that these challenges can be overcome with proper design and a careful strategy for roll out. The administrative transaction costs are somehow higher than more simple grant schemes, but easily outweighed by the benefits.

Emerging issues and recommendations

Development of PG systems has provided interesting and encouraging lessons, which deserve further consideration in the elaboration of the next generation of these schemes. More output-oriented indicators, links to the sector performance may be considered, with an eye on keeping the system manageable and simple and the performance indicators within the areas of LG control, i.e. it would not be appropriate to sanction weak LGs for having above the average number of poor citizens, high illiteracy rate, etc. Other incentives may also be considered to supplement the financial incentives such as wide public announcements of LG performance, league tables, rewards for best practices, publications with key finance figures, more autonomy and assignment of additional tasks to the strongest LGs, etc.

⁶² OED, 2004, op cit p. 18 discusses the “core capacity – the minimum level of capacity that must exist to implement proposed performance improvements..” The same is the case with the MCs for absorption of discretionary development funds.

There is definitely room for further development of the promising experiences from the so-called “second generation” of grant schemes, which adjust the size and the level of *autonomy* against the LG capacity to absorb, capacity to reduce the fiduciary risks and improve performance within administration and good governance.

Hitherto, these PG schemes have mostly been utilised within the development transfers schemes (grants which are easier to adjust without implications for the current LG business). However, there is room for a cautious “roll-out” of the principles to the recurrent grant schemes, e.g. by linking the level of flexibility in the utilisation of grants (room for manoeuvre) against the LG capability and performance, allowing more autonomy for the strongest and best performing LGs, thereby “catalysing” good performance and reducing the risks.

There is always a risk that rigid conditionalities may create a shift away from local accountability towards focusing entirely on compliance with the central government reporting requirements and targets (upward accountability). However properly designed, broader incentive-based requirements for LGs to improve on the *local downward accountability* – such as publication of transfer figures, publishing of plans, budgets, accounts and audit reports, notice boards, involvement of citizens in planning and budgeting and monitoring, transparency and dialogue, establishment of user committees/project implementation units with involvement of citizens, etc – can strengthen the LG incentives to open-up for dialogue and may, over the time, enhance citizen participation and downward accountability. The experiences from the communication strategy of the LGDP and the performance measures on good governance, linked to the size of the transfers in Uganda and the LASDAP (participatory planning process) /LATF process in Kenya, have yielded some promising results for this form of indirect support to enhanced local accountability, but this is an area in need of further work.

It is an overarching challenge for CGs and the donors to move away from a role of tight ex ante micro control to one of guidance and mentoring - ensuring an enabling environment for the LGs, proper supervision and ex post sanctioning, combined with further development of good incentives for current LG improvements in service delivery and good governance.

The emerging application of incentive means in the intergovernmental grant schemes in Kenya, Uganda and Tanzania⁶³ and other countries are among the most interesting and promising recent developments in the field of LG finance, and they have documented significant impacts (including “quick wins”).⁶⁴ However, the incentives have been mostly directed towards the performance of the LG as an institution/entity, and the elaboration of incentives for individual staff performance has been less in focus, although equally important.

There have been remarkable improvements in recent years in the coordination of support for LG development investments, establishment of joint donor basket funds and common project designs ensuring a more equitable distribution of funds and procedures mainstreamed with the government procedures in many African countries. The increase in support to PG systems has promoted this coordination. However, this process will still be challenging in the coming years, and will require better linkages with the sector support programmes, in order to ensure synergies between the LG based programmes and the SWAPs and a gradual merging of the district support programmes, with (on-budget) components of capital investment support to LGs within the emerging central government genuine development transfer schemes.

⁶³ Tanzania still in the first phases, but with plans for a significant roll-out.

⁶⁴ These findings are supported by other analyses of the impact of fiscal incentives, e.g. Roger Shotton (ed) in *Local Government Initiative: Pro-Poor Infrastructure and Service Delivery in Rural Asia – A Synthesis of Case Studies*, UNCDF, 2003, which has documented the same experiences in Bangladesh.

The next step is to further transform the PG systems/programmes to the general intergovernmental fiscal transfer system. This has been and will remain a future challenge in several countries. In Uganda, which have tested the PG system/LGDP approach for some years, the future challenge is to further mainstream the development grant and capacity building grant system with the general intergovernmental fiscal transfer system (and ensure sufficient funding) and the programme support components with the host ministry – the Ministry of Local Government. Various options are explored, including establishment of a sector SWAP for Decentralisation etc. and/or to continue to refine the programme and gradually mainstream the functions.

Related to this challenge are the links to other parts of the funding system. Two risks need to be addressed. First, development of fragmented, multiple, highly conditional and earmarked systems of sector specific (categorical) transfers may potentially undermine the incentives in the PG system if the right balance is not achieved, i.e. if the funds in the PG are too small to provide incentives and/or too small for meaningful planning, budgeting, local priorities and project implementation.

Second, the linkage to off-budget funding flows, like social action funds, requires attention as these systems pose risks of undermining the incentives in PG systems if alternative funding in a larger scale is available for investments⁶⁵. If there is a large transfer of funds to localities, by-passing the LG system and (accountability) procedures, and if these funds are supposed to be used within the LG mandatory functions, the planning, budgeting and implementation capability of LG and incentives (and pressure) to improve may be considerably reduced. These issues are treated in further detail in Chapter 4.

To conclude, elaboration and support to funding of performance based grants systems deserve full future support. With the experiences from Uganda, Tanzania, Kenya and other places, e.g. Senegal, the World Bank is in a good position – in cooperation with “like-minded donors” to assist the Governments in the various African countries in further enhancing and roll-out of the use of PGs. The systems are typically more institutionally demanding, require more technical support in the design and implementation than other grant systems, e.g. simple recurrent grant schemes, but compared to the benefits it is highly recommended to increase the involvement to promote these systems in other places.

⁶⁵ E.g. NUSAF in Uganda provides funds in the tune of 3-4 USD per capita compared to the PG (LGDP) scheme of average 1 USD in the rural districts.

4. Donor Coordination and Support to Local governments

4.1 Introduction

As documented in a recent OECD review of Decentralisation, government-donor and donor-donor coordination is crucial for effective support in the field of decentralisation and efficient local capacity building. Experience has shown the value of strong coordination, especially in the design of joint programmes such as development grant and capacity building programmes.⁶⁶

However, there are great challenges in this area in most countries. Donor support in the field of decentralisation has often been ambiguous and the coordination has been far from optimal, partly due to lack of capacity in the key ministries, partly due to the numerous donors operating within the field of decentralisation with different country specific modalities for donor support, not always synchronized and the wish from some donors to show that their isolated inputs have provided tangible results. There are numerous examples of donor supported area based/LG programmes with reluctances to integrate the support with the overall decentralisation process, systems and procedures and to use the government planning, budgeting, accounting and auditing procedures and many examples of lack of information sharing and disclosure of programme ideas⁶⁷.

Some of the problems have been development of “islands of development” (sometimes hidden behind the concept of piloting), where donors have concentrated on a few LGs, leaving all others without support. This has created severe imbalances and inequality, supply and not sufficiently needs based capacity building support without linkages to incentives to improve, lack of institutionalisation and use of government systems, procedures and modalities, e.g. for transfer of funds to LGs, and programmes with contradicting objectives and undermining incentives.⁶⁸

However, there are also many good examples of innovative measures in the African countries to strengthen coordination between the governments and the donors and between the various key donor agencies in the field of decentralisation. Below are some examples of various emerging “good practices”.

4.2 Country Experiences⁶⁹

There is generally a trend towards strengthening of the coordination in support of decentralisation. An example of this is Uganda where the Government – donor and the donor–donor cooperation is rather institutionalised, and where there is a permanent, all-encompassing Decentralisation Donor Sub-Group (DDSG)⁷⁰ and a current dialogue between the Ministry of Local Government and the DDSG. Programmes are discussed and in many cases coordinated and aligned with government procedures.

In Tanzania, the coordination is regular amongst the countries involved in the Basket Fund arrangement in support of the Local Government Reform Programme (LGRP). However, there is no permanent all-encompassing DDSG.

⁶⁶ OECD, 2004, op cit Page 22-24.

⁶⁷ UNCDF, 1999, op cit Page, 77 and interviews with the donors supporting decentralisation in the EA countries.

⁶⁸ Cf. e.g. 1) PWC: Development of a Capital Grant Programme and a Capacity Building Programme, Volumes I and II, Final Report, December 2003, 2) Gerhard van Land/Ssewankabmo et al op cit, 2004, and 3) Steffensen and Ssewankambo: *“Links between the LGDP and Donor Supported Programmes in the field of Fiscal Decentralisation, Final Report November 2001.*

⁶⁹ This section has benefited from Steffensen and Tidemand, 2004, op cit p. 72-75 and OECD, 2004 op cit.

⁷⁰ The DDSG has even developed its “rules of conduct” – a Charter.

In Kenya, the coordination is carried out through ad-hoc dialogues between “like-minded” donors, but there are signs that a more common approach to support within the field of decentralisation is emerging.

There are emerging signs that the cooperation in two important areas is improving in many African countries:

- 1) The support to elaboration and operation of common grants schemes for LG service delivery and infrastructure and
- 2) Coordination of capacity building support.

Coordination of support to grant schemes for development

One of the promising trends in several African countries have been the strengthening of the cooperation between the Government and the donors in provision of equitable support to LGs in the area of formula based development grants, often linked to incentive schemes, cf. Chapter 3.

In Uganda and Tanzania, the Governments have managed to bring most of the key donors behind common support schemes substituting the previous fragmented bilateral area based support programmes⁷¹.

In Tanzania this initiative started with the Local Government Reform Programme (LGRP), since 1999, a Programme based on a clear Government Decentralisation Strategy – “*The Policy Paper on Local Government Reform, 1998*”, supporting LG capacity building and systemic decentralisation reforms, coordinated by a common LGRP secretariat under the Presidents Office – Regional Administration and Local Government. The LGRP is supported financially by nine larger donors, through an ongoing basket fund arrangement.

Based on various studies and reviews, documenting serious flaws in the existing (donor driven) district/area based decentralisation support,⁷² identified needs for decentralisation of the development budget and elaboration of clear formulas for allocation, a decision was made in 2004⁷³ to establish a common support scheme for transfers of capital development grants and capacity building grants to all LGs in Tanzania. The system will gradual establish one common window for mainstreamed, consolidated and on-budget support to LGs investments in service delivery and infrastructure. This will mean a gradual phasing out of the multiple area-based support programmes.⁷⁴ The box below portrays the main design features and the trends towards common programming and use of government, on-budget systems and procedures:

⁷¹ Senegal is another example where there has been experiences from coordination of grant support to LGs, cf. OECD, 2004 op cit, p. 23.

⁷² Cf. e.g. Gerhard van Land and Ssewankambo et all, op cit 2004.

⁷³ This was based on thorough analytical work, cf. PWC, 2004 op cit.

⁷⁴ This process is outlined in the Government of Tanzania’s Letter of Sector Policy.

Box No 2: Local Government Capital Development Grant System in Tanzania

After a period of detailed programme design and parallel reviews of the existing district support (area-based) programmes in Tanzania⁷⁵, it was decided to launch a larger and more focused programme in support of fiscal decentralisation and devolution of the development budget – the Local Government Capital Development Grant system, supported by the Local Government Support Programme by the World Bank, the Local Government Reform Programme (LGRP) LGRP and a number of bilateral donors Netherlands, Ireland, Finland, Belgium and probably other donors. The main features of the programme, which over the coming years will cover all districts in the country, are:

- ❑ Provision of discretionary non-sector capital development grants, use of on a transparent formulae for grant allocation, based on the objective needs of the LGs, instead of previous support based on the character of the donor relationship, ad hoc support based on negotiations between particular districts and ministries and arbitrary allocations from central government;
- ❑ Incentive system in-built in the allocation formula and annual assessment of the capacity and performance of LGs – adjustment of the grants against these results;
- ❑ Provision of demand driven capacity building support and transfer of capacity building grants to all LGs;
- ❑ Support to better coordination of the capacity building support, development of standardised training materials, certification of training providers, development of support guidelines (budgeting, appraisal, procurement) etc.
- ❑ Support to the systemic reforms, e.g. promotion of LG own source revenues to enhance sustainability and ownership.

As mentioned in the GoT's Letter of Sector Policy:

“The vision is of a unified transfer system, which brings together programmes and grants, recurrent and development funding, donor and government funding into one process. Parallel funding to LGAs shall, wherever practical, be merged into the Government grant system over the next five years, in order to maximize equity, transparency and efficiency in the use of resources”...“The present LGA development funds come from several sources each using individual allocation, disbursement, and accountability procedures. The Government will over the next 4-5 years bring all these various development grants under one operational “window”, using common modalities for planning, budgeting, accounting, reporting and auditing. LGSP (Components 1 and 3) will, together with the development partners participating in a basket arrangement, commence the implementation of this strategy through the Local Government Capital Development Grant (LGCDG) system.”

Parallel to this promising initiative, the GoT has launched a common reform of the recurrent grant system, which will establish clear, transparent allocation formulas for grants to LGs within all main sectors (health, education, water, etc.) This initiative is also supported by a joint donor basket fund. Joint task forces with representatives from GoT, donors and other key stakeholders have been established in key reform areas, HR, fiscal reforms etc. to coordinate the reform agenda.

Similar experiences have appeared in Uganda where there has been a gradual merging of the district support programmes to one common transfer window for development grants under the Local Government Development Programme (LGDP) and where 4 donors have agreed to support a common programme with others aligning their support on a mutual strengthening basis, cf. Chapter 3.

⁷⁵ These reviews documented serious flaws in the efficiency and effectiveness of the area based donor support approach (projects supporting few districts), e.g. Land and Ssewankambo, et al, 2004, op cit. E.g. in some districts with 15-25 years of significant donor support (financially, TA, in-kind etc.) the basic capacity and performance of the district seem not to be better than in districts without this support.

The challenge has been, and will still be in the coming years, two-fold – 1) to “fold” the district/area based programmes into the governments’ transfer schemes and 2) gradually to merge the sector development grants into the non-sector discretionary development grants to ensure better options for local priorities along with increased capacity to handle the funds.

Coordination of Capacity Building

Capacity building activities have been numerous, scattered and hardly coordinated in most African countries. There has typically been lack of an overall coordination and clear donor entrance for support, and an absence of a framework to ensure high quality, non-overlapping, resource-cautious approaches.

Based on the experience of these problems, and the experience from capacity building grants on a demand-driven basis to LGs, Uganda decided to elaborate a LG capacity building framework, including establishment of a CB unit in the Ministry of Local Government – and later a policy, strategy and common coordination. Among the first steps was the development of common training materials, which have been designed with support from most of the donors, and with the involvement of LGs/ the Central Government/ donors in the steering and quality assurance (of the materials and of service providers). There has also been joint support to the development of the LG human resource functions, to enable them better to utilise the demand-driven CB grants. Please refer to Chapter 2 for more details on the CB concept in Uganda. A rather similar system has been agreed in Tanzania with support from the LGSP/LGCDG and the LGRP, cf. above, that will start from 2005⁷⁶.

4.3 Lessons Learned, Challenges and Recommendations

The experiences have shown that strong coordination of the support in the field of decentralisation can reduce the transaction costs both for the CG key ministries and LGs by mainstreaming and harmonising systems and procedure. It has proved easier and more sustainable to harmonise around government procedures than around one of the procedures of one of the donors.

As mentioned in the OECD DAC Publication⁷⁷ “Lessons Learned on Donor Support to Decentralisation and Local Governance, 2004”: *“In most of the reviewed evaluations donor co-ordination is considered a major challenge, both at the national and local government level. In many cases proper forums exist and serve as venues for information exchange. However, in terms of co-ordinated efforts to enhance decentralisation and governance the forums have not worked properly”*.

This is a major challenge, which is being addressed in some of the more mature decentralisation processes exemplified by Tanzania and Uganda - however still with significant room for improvement.

The following areas have shown to be of particular importance in increasing the efficiency of the support to decentralisation:

- ❑ Development of joint funding schemes for intergovernmental development grants to LGs to avoid off-budget, non-transparent, non-equitable systems with poor incentives for LGs to improve the performance. Joint support to development of the new type of systems described in Section 3 is a good platform for further progress and have shown encouraging results;
- ❑ Development of common systems for capacity building support (e.g. in form of demand driven capacity building grants), encompassing elaboration of joint training materials, certification of training providers, joint CB needs assessments, etc., to ensure high qualified, strongly coordinated and more efficient support;

⁷⁶ Similar experiences and plans are discussed in other parts of the World, e.g. in Nepal and the Philippines.

⁷⁷ OECD, 2004 op cit, p. 23, based on reviews of formal evaluation reports of donor support to decentralisation

- Experience from Uganda and more recently from Tanzania and Kenya shows that national programmes, when properly implemented, may substitute the previous area based rural development programmes and make these redundant, as the latter were, in one way or another, gap-filling and interim measures. When national programmes are in place like LGDP (Uganda), LGRP/LGSP (Tanzania), KLGRP- LATF in Kenya etc., projects and programmes should, as much as possible, avoid creation of parallel systems and procedures, and rather seek to reinforce systems and institutions put in place by the national policies. Fortunately, there appears to be an emerging general consensus between the governments in the EA countries and among the majority of donors in these countries about this approach;⁷⁸
- Joint government-donor reviews, e.g. in form of yearly reviews of the decentralisation progress⁷⁹, instead of numerous, piecemeal studies and assessments;
- The linkages between the *decentralisation* reform and the *sector* reform processes have been weak in most countries and similar problems are observed in the linkages between decentralisation and the wider issues of public sector/civil service reforms.⁸⁰ The links between the Sector-Wide Approaches (SWAPs) and the decentralisation reform process have been blurred, and the processes have been carried out largely in parallel without proper coordination. Second, as documented by Steffensen and Tidemand, (2004), decentralisation has hitherto had a minor role in the PRSP and in the PRSC dialogue in many countries⁸¹. And the LG reform process has not been sufficiently linked with the reform plans within the civil service system, including the pay reform discussions. The weak links between decentralisation reform and the overall public administration reform process, e.g. the civil service reforms, restructuring, budgeting reforms, etc. and the sector approaches are areas in need of urgent attention. In this process it will be important to ensure that other reform areas, especially the SWAPs, are not undermining support to decentralisation. These issues should be more closely coordinated in the future support on decentralisation. The dialogue in Uganda at the moment concerns a strong pressure to elaborate a SWAP decentralisation to avoid that the issues on decentralisation are ignored and to ensure sufficient coordination of the main reform agenda.
- There is also a need to reconcile (and as a minimum to coordinate the support to) the two approaches – 1) the local government development approach as exemplified by the LGDP I and II in Uganda/ LGSP in Tanzania/KLGRP-LATF in Kenya and 2) the social action fund (community) approach, exemplified by NUSAF/Uganda; TASAF/Tanzania; MASAF/Malawi, etc. – and to explore possibilities for synergies, to review situations with most optimal applications, phasing in of systems, etc. The social action fund approach may potentially undermine the support to establishing of a genuine institutionalised democratic local government system and the incentives of the LGs to improve, if: i) funds are by-passing the LG budgets and accounts, if projects are not being integrated with the LG planning system, making it impossible to conduct comprehensive planning and priorities, ii) if donors are not coordinating and involving the LGs in the activities in the local areas, iii) if NGOs/CSOs forget their roles as interest/pressure groups and instead are focusing entirely on being service providers and/or service producers, iv) if programmes are heavily supported by external project staff without sufficient CB support to local institutions to make them able to respond, etc. There is a need for a thorough review of how the two approaches impact on each other and where they have their comparative advantages;
- The role of a strong centrally positioned Ministry, e.g. Ministry of Local Government, is critical for overall coordination of decentralisation reforms. However, substantial decentralisation reforms require high-level political guidance and coordination. Decentralisation requires

⁷⁸ Cf. also Land/Ssewankambo, 2004, op cit.

⁷⁹ This takes place in Uganda- called the Joint Annual Review of Decentralisation (JARD) and in Tanzania, although only covering the support under the LGRP. In Nepal, a joint Government-donor Review of Decentralisation in 2000-01 led to a whole new policy for decentralisation approved in March 2002 (the review was managed by Holger Pyndt, LGDK)

⁸⁰ Cf. 1) Steffensen/Tidemand, 2004, op cit; 2) UNCDF, 2003, op cit, 3) OECD, 2004 op cit, and 4) David Watson, DFID Paper prepared for the AGF V working group, 2002.

⁸¹ In Uganda the future position of the decentralisation reform agenda in the PRSP/PRSC process is on top of the agenda.

reforms of the entire public service, and all sectors, in a manner that is beyond the mandate of one ministry. One way to ensure high-level political guidance to reforms is to have some form of cabinet committee established, clearly linked to the Presidents office, and/or have the reform principles entrenched in binding documents – if not in the Constitution itself. Furthermore, the role of a strong and decentralisation oriented Ministry of Finance, especially to ensure a well-functioning, predictable and timely intergovernmental fiscal transfer system and to ensure links to and involvement with the sector ministries, is equally important as well as a strong involvement of the associations of local authorities, as mentioned in Chapter 1. Hence, it is recommended to support these key institutions to spearhead the coordination and progress in the reforms;

- Finally, various forums for joint government-donor coordination on decentralisation may facilitate the reform process, but these need to be part and parcel of an overall strategy⁸², well prepared and related to specific actions, innovations and funding arrangements. There is room for significant improvement in terms of the donor working “culture” – sharing and disclosure of information, flexibility in requirements of procedures and modalities.⁸³ Some African countries have successfully ensured common donor basket funding of various programmes in support of different components of the decentralisation process. A future challenge will be, in some of the more mature systems, to design the future support modalities in the field of decentralisation, moving from typical programme support to a kind of “sector” budget support/and or general budget support with clear agreements on the milestones and targets to be achieved in the field of decentralisation and to ensure that decentralisation issues are given an important role on the agenda of PRSP/PRSC and the SWAp processes.

⁸² E.g. the new instrument in Uganda - the Joint Annual Review of Decentralisation (JAR), which outlines the status, the key challenges and recommended actions for the way forward.

⁸³ The principles for harmonisation of donor support are laid down in the Rome Declaration on Harmonisation in February 2003, cf. DAC Guidelines and Reference Series – Harmonising Donor Practices for Effective Aid Delivery, OECD 2003.

5. Main Conclusions and Recommendations

Based on the review of the experiences from decentralisation and the support rendered in the most recent years, particularly focusing on the East African countries, the main observations and recommendations can be summarized as follows:

“Integrated” Capacity Building of Local Governments

The lessons learned from the recent OED, 2005, evaluation of World Bank supported projects in Africa have been that CB should not be treated as a “collateral” to other activities. The experiences from our review of the experiences from the decentralisation processes in East Africa have supported this conclusion, but have also shown that there are numerous examples of the problems with CB of LGs when it is not probably linked with fiscal means for service delivery and when funds are transferred for service delivery without LGs having capacity to absorb. The review therefore suggests that the support to local governments is most efficient if there are proper linkages between three major elements:

- 1) Support to the LG funding arrangements to improve service delivery and infrastructure allowing sufficient autonomy and local decision-making and involvement of citizens in planning and implementation,
- 2) Establishment of a conducive framework to strengthen the present weak incentives for local institutions to improve performance in key areas of importance for efficient functioning (performance assessment systems and adjustment of grants against performance), and
- 3) Demand driven and targeted capacity building support to enable LGs address functional and organisational weaknesses.

This “toolkit” for enhancing efficiency is to carefully design incentive systems using a “learning-by-doing approach”.

Demand and Supply Driven Capacity Building

The evidence shows that the major part of capacity building for LGs should be demand driven, but there is a need for central government coordination, for certain amounts of “supply” driven capacity building support as well, especially within training in key performance areas (e.g. induction training of newly elected local councillors) and elaboration of planning, budgeting, accounting and procurement guidelines etc., which are important for all key staff in the LGs. The crucial design issue is to find the right balance, which will change along the development of the decentralised system and the basic capacity of the LG key players to manage their own development.

Support to Local Government Associations is Vital

It is vital for the medium to long-term sustainability of the decentralisation reforms that donors support the establishment of strong and viable LG associations. The donor support should be comprehensive and long-term (5-10 years) and include funding of key staff (some 5-7 staff categories) (preferably full funding on a slightly declining scale), housing costs, office equipment, transportation means, an activity fund to cater for LGA meetings, seminars, conferences, etc. It will enhance the support tremendously if emerging LGAs are supported by donors to develop twinning relationships with other, experienced LGAs to advise them in their development process. A fund for consultancy should also be established, so that LGAs can buy local and/or international consultancy for specific tasks and problems. The donors should strive to create a basket funding for emerging LG associations, and donors might in their general public administration and decentralisation reform work assist in paving a proper way for LG associations

Assessing the Minimum Capacity and Boost Current Improvements through Incentives

The local government development approach, summarised in Chapter 3, is a powerful tool to combine support to devolution of decision-making, provision of financial support, demand driven capacity building, assessment of minimum LG capacity required to function as service providers, assessment of the general and specific LG capacity building needs. It is also a good tool to boost the incentives to improve the performance in administration, management and implementation, and enhance the accountability - both upwards vis-à-vis the central government and the funding agencies, and downward vis-à-vis the citizens. This demanding task requires delicate project design

and strong institutional arrangements for management. This is area where TA support is required and where the World Bank has a comparative advantage.

Institutional/organisational incentives and individual incentives

One of the future challenges is to combine the systems of organisational performance incentives with systems to ensure better individual staff performance (including pay reforms, other incentive systems for staff, etc.) and link the innovative decentralised systems with the reform process in the areas of wider public administration reforms and sector reform processes. The general civil service/pay reform systems should also consider the special conditions of the LGs.

Donor Coordination

As highlighted in several studies, donor coordination is vital for efficient support in the field of decentralisation. It is recommended to continue the strengthening of the donor coordination, exemplified by the emerging initiatives in the East African countries in the field of decentralisation (basket fund arrangements, joint initiatives and establishment of working groups, common programming, reviews, evaluations etc.), and support the links to the wider public administration reform agenda, civil service reforms, budget reforms and the PRSP/PRSC process. There is a need to explore the way forward in the transformation from programme support to various forms of SWAp and budget support and to identify a stronger role for decentralisation in the PRSC processes.

Links to the SWAps and Action Fund Approach

The study recommends improvement of the links between the SWAps and the cross-cutting decentralisation issues and to explore the options for designing the decentralisation support as a SWAp. Finally it is recommended further to explore the links between the various approaches to decentralisation support – especially the support to strengthen LG institutional development vis-a-vis the more community based approach, exemplified by the social action fund approach. The research of when, why and under which circumstances these approaches have their particular benefits are not well documented.

Annex 1: Overview of Standardized Training Courses in Uganda, LGDP II, 2004

1. Management and Leadership in Local Governments
2. Human Resource Management Skills in Local Governments
3. Local Government Roles and Responsibilities; Communication
4. Civil Society Organisation and Public-Private Sector Partnerships
5. Development Planning for Local Governments
6. Investment Appraisal/Project Appraisal
7. Procurement and Contract Management
8. Supervision and Project Implementation
9. Project Monitoring and Evaluation
10. Financial management for Non-financial Staff (Budgeting, Accounting, Audit)
11. Financial Management: Budgeting and Accounting
12. Financial Management: Internal Audit and Control
13. Revenue Mobilisation in Local Governments
14. Monitoring Revenue Collection
15. Decentralisation, Local Government Act, Local Government Systems
16. Community Participation and Mobilisation
17. Legislation in Local Governments
18. Computer Skills/ICT (Basic and Intermediate Levels)
19. Data Collection, Records and Data Management (Basic and Intermediate Levels)
20. Training of Trainers (Basic and Intermediate Levels)
21. Gender Awareness Training
22. Gender Training for Gender Focal Point Persons and Community Services Department Staff
23. Urban Planning and Management
24. Ethics and Integrity
25. Environmental Awareness
26. Organisation Assessment and Institution Building