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The Territorial Approach to Local Development (TALD)

From Decentralization Reforms to Development Outcomes
A POLICY NOTE

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EXECUTIVE SUMMARY

Adopted by the EC on 15 May 2013, the Communication “Empowering Local Authorities in partner countries for enhanced governance and more effective development outcomes” commits the EU to promoting *territorial development*. This is now being reflected in the next programming cycle of both the Thematic and Geographic lines of EU development cooperation. Already, the EU Thematic Programme “Civil Society Organizations and Local Authorities” (CSO&LA) has made “*Testing pilot actions promoting local development (LD) through a territorial approach*” one of its three overarching goals. As such it is poised to become a critical, although by no means the only, instrument to operationalize the EC Communication’s commitment to territorial development.

Yet, both the concept of territorial development and the contours of a territorial approach to local development promotion are in need of clarification. Also, more specific guidance could be provided to EU Delegations’ staff to enable them to better advocate and support a “Territorial Approach to Local Development” (TALD). As a first step towards the development of such guidance this policy note aims (i) to provide a definition of a national territorial development policy and a map of its multiple dimensions, and (ii) to identify entry points and appropriate modalities to support the development, adoption and implementation of a territorial approach to local development in diverse country contexts. The note is divided in three parts.

Part 1 conceptualizes territorial development as an extension of the concept of local development, incorporating an explicit recognition of the multi-scalar and spatially-integrated nature of development. It then defines the “Territorial Approach to Local Development” (TALD) as a multi-dimensional *national* policy that promotes *endogenous, integrated, multi-scalar and incremental* local development. It argues that adopting and promoting the TALD, as a key component of the national development policy, would help realize the potential of local development for a country’s economic growth and social cohesion and provide the missing link between decentralization reforms and development outcomes.

Part 2 presents the logic of the TALD and argues that achieving territorial development (i.e. endogenous, integrated, open and incremental local development) requires critical *improvements in the Local Development (LD) Management System*, which include: (a) Widening the *scope* of action of developmental local authorities (LA) beyond the implementation of specific functions assigned by the State and recognizing LA as political actors with a general mandate for development of their communities; (b) Introducing a sub-national development *planning* system that recognizes both the difference and the complementarity between local planning and the localization of national/global plans; (c) Adopting a diversified set of LD *financing* instruments including own-source revenue, contractual financing arrangements as well as budget and project financing mechanisms; and (d) Adopting innovative *implementation* modalities that promote civic engagement and mobilize community and private sector resources.

The section goes on to discuss how the sustainability of these improvements depends on key policy and institutional changes occurring at both national and sub-national levels.

Key supportive *national policies* include (a) a *decentralization* policy that expands the scope of autonomy for urban and rural local authorities, enhancing their role in the design and implementation of national programs and strengthening their upward and downward accountability to the State and to

their constituencies, (b) a national *urban agenda* that leverages the potential of urbanization for economic growth and social cohesion, and counters its environmental and social downsides, and (c) a *rural development policy* stressing spatial integration of multiple sectors' activities, spatial connectivity and urban-rural synergies.

Key supportive *sub-national* institutional change includes (a) effective mechanisms for multi-scalar *inter-governmental cooperation* for public expenditure management and services delivery (b) local *leaderships* and local administration *capacities*, and (c) *active citizenship* and public-private-community *partnerships*.

Improvements in the LD management system and supportive national and sub-national policies are then collectively referred to as the dimensions or "*building blocks*" of a territorial approach to local development. Their relative importance, and suitability as entry points for systemic reform and for external aid, are *highly context-specific*, and may be revealed only by a careful *political economy analysis* of the incentives faced by relevant stakeholders. Yet moving forward on these dimensions is what can translate decentralization reforms into local development outcomes.

Part 3 quickly discusses the implications of the territorial development paradigm for the programming of external assistance. The discussion is intentionally general and not specific to the programming of EU assistance (a matter to be addressed in more operational Guidelines). It starts with issues of partnership, reiterating the importance of engaging with central authorities to enhance the policy, institutional and sectoral frameworks within which LA can effectively operate, but also stressing the need for more direct partnership with emerging LA, their national associations and relevant Civil Society Organizations, to bring about immediate institutional and sectoral results and strengthen the political constituency for Local Development-driven decentralization reforms. It then moves to a review of the comparative advantages of different aid modalities for an effective support to territorial development, stressing the importance of *program-based* and *project-based* aid, in the many practical instances in which *policy-based* aid is not feasible or appropriate.

Background

The Communication “*Empowering Local Authorities in partner countries for enhanced governance and more effective development outcomes*¹” adopted by the EC on 15 May 2013 commits the EU to promote territorial development. The Communication recognizes the comparative advantages of local authorities to act as catalyst of territorial development and their potential to improve governance and deliver development to citizens. It also sends out a clear message that this will not happen if local authorities are not empowered to operate with a meaningful degree of autonomy, resources, and appropriate accountability to both the State and the people in their jurisdictions; or if they do not exercise leadership, build their own capacities and mobilize community and private sector resources. In the Communication, the EU commits itself to pro-actively support a greater developmental role of local authorities, by helping them participate in policy dialogue on national development, by investing in decentralization process which, while inevitably driven by politics, may open new spaces for territorial development and by directly assisting local authorities with smart forms of technical and financial support.

The EU Thematic Programme “Civil Society Organizations and Local Authorities” (CSO&LA), being developed for the new cycle of EU development cooperation, could be a critical instrument to realize the vision outlined by the Communication. The Programme is specifically designed to support multi-actor approaches and inclusive partnerships for development aimed at poverty eradication and sustainable development, recognizing the need for, and the value of, multiple stakeholders' contributions. This Programme will help CSO&LA responding to populations needs and participating in inclusive policy-making at different levels. It will focus on the reinforcement of CSOs and LAs as autonomous actors and, while respecting their diversity, it will promote the coherence and complementarity of their actions and leverage their synergies. To this end, it will focus on innovative forms of CSOs and LAs interactions in local public policy-making, as well as the co-provision and co-production of good local governance and development outcomes.

The Programme pursues three priorities at country level:

- Enhancing CSOs' contributions to governance and development processes;
- Enhancing LAs' contributions to governance and development processes; and
- Testing pilot actions promoting *local development through a territorial approach*.

DEVCO's B2 unit 'Civil Society & Local Authorities' is in charge of managing the current Thematic Programme for Non State Actors and Local Authorities (to be renamed CSO&LA) as well as the general coordination of relations with civil society and LAs. The unit is also in charge of providing quality support and guidance to EU Delegations and other units on support to Decentralization, Local Governance and Local Development and on modalities for engagement with LAs. More particularly, it is in charge of coordinating and facilitating the implementation of a new EC vision on the developmental role of local authorities as expressions of local political constituencies in a given territory.

¹ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: *Empowering Local Authorities in partner countries for enhanced governance and more effective development outcomes*. Brussels, 15.5.2013, COM (2013), 280 final.

Purpose of this policy note

Against the above background, DEVCO's B2 unit considers that more specific guidance on the nature and challenges of territorial development should be provided to EUD staff as a step to build a greater EC capacity to advocate and support in-country testing, replication and adoption of a “ *Territorial Approach to Local Development*” (TALD), which is a multi-dimensional development policy presenting national and sub-national reform champions, and their development partners, with different opportunities and challenges based on their specific policy, institutional and human resources capacity environments.

The purpose of this policy note is to provide an initial and comprehensive conceptual framework that may enable the preparation of more specific guidance materials addressed to EU policy-makers and practitioners. More specifically the note aims at:

- Clarifying the concept of territorial development and providing an operational definition of the TALD;
- Elaborating on the rationale and increasing importance of adopting and supporting a TALD policy;
- Identifying the “building blocks” of a TALD as both (i) specific improvements in the LD management cycle and (ii) specific changes in national and sub-national policies and institutions necessary to sustain them;
- Elaborating on the challenges and opportunities faced by programs that aim at piloting and supporting the adoption of a TALD in different policy, institutional and human capacities contexts; and
- Assessing the comparative advantages, and potential synergies, of different aid modalities for the purpose of supporting the development, refinement, testing, adoption and implementation of a national territorial development policy.

1 WHAT IS A “TERRITORIAL APPROACH TO LOCAL DEVELOPMENT” AND WHY IT MATTERS?

1.1 What is a Territorial Approach to Local Development (TALD)?

The definition of the “*Territorial Approach to Local Development*” requires a brief discussion of terminology. Commonly, the adjective *territorial* refers to either (i) the *spatial* integration and/or (ii) the *geographic* scale of local development.

In the first and more specific sense, “*territorial*” refers to the spatial integration of development across multiple sectors, guided by a spatial vision of the desirable future, and achieved through investment in physical infrastructure and management of the built and natural environment. This definition is not related to any particular geographic scale (local, regional, national or transnational) and applies equally to any of them.

In the second and more neutral sense, “*territorial*” refers to the development of a specific (typically sub-national) portion of a country’s territory. This may be an *urban*, *metropolitan*, *regional* or *rural* jurisdiction, but also an otherwise defined space like *watershed*, *coastal*, *mountainous*, *border areas*, etc. Most often, the term is used as an extension of *local* development (narrowly referred to the development of *smaller, first-tier, jurisdictions or part of them*²) to include and emphasize *regional* development, i.e. the development of larger, intermediate jurisdictions (provinces, regions, etc.). Ultimately, since any space can be defined as local from an observer located above or outside it, the expression *territorial development*, when used in such broader, more neutral sense, may just be an “umbrella” term to designate *local* development at *any* scale.

What should we make of these definitions? As it is often the case, new terminology may obscure some issues while it attempts to clarify others.

When used to designate spatially oriented, “horizontally” coordinated development, territorial development may hide critical differences in the way sectors operate and overstate both the possibilities for such horizontal coordination and the role that individual local governance institutions, and locally adopted spatial development strategies, may play in it. Ultimately, it may slip into a “hyper-local” perspective and obscure precisely the multi-scalar, multi-actors, nature of local development.

When used as just an umbrella term for local development at any level, the term “territorial development” may end up hiding critical differences (mostly *political* and *institutional*) about promoting local development at different spatial scales³, and even obscure the essentially *endogenous* nature of local development and the role of territory as an *active* ingredient, not a passive receptacle, of development.

Yet the expression “territorial development” has added value to the development discourse, because:

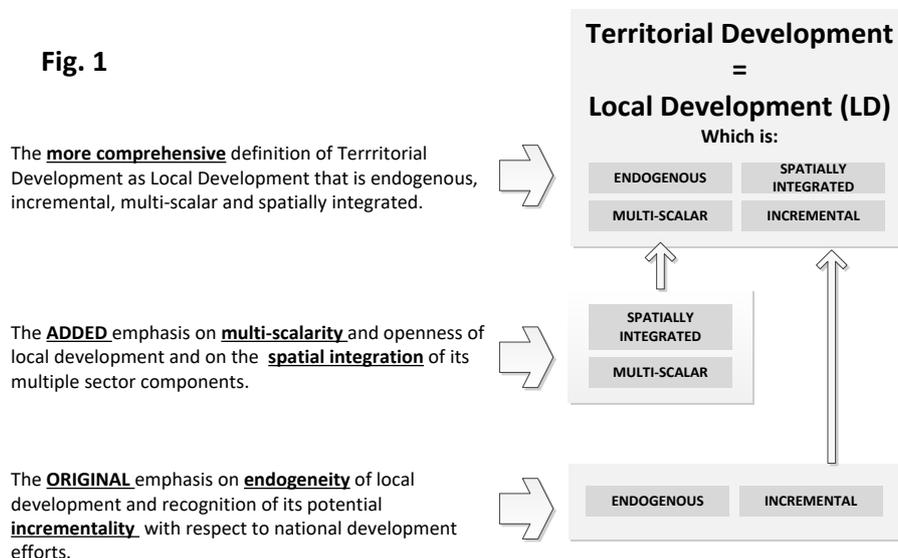
² That is: Municipalities, Communes, Neighbourhoods, and similar jurisdictions.

³ A most obvious example is the difference, in scope and modalities, of people’s participation in public policy making and implementation at the urban or regional scale.

- a) It points at the *interdependence* of urban and rural localities, small and medium towns, municipalities, metropolitan areas and regions, stressing the *multi-scalar nature of local development* and calling for a reflection on the critical implications that this may have for its promotion, and
- b) It stresses the importance of a holistic, *spatial orientation* of local development to integrate physical/environmental and social/economic considerations and overcome the fragmentation of sector-based policy making and implementation.

To recover the full value of the concept, minimize the risks attached to its current uses, and effectively implement it, a richer and more specific definition might be needed, one that incorporates in the definition of territorial development the advances made since the early 80's in *local development's* conceptualization and practice. "Local" is no longer understood as just the designation of a particular scale, a "where" whose definition may ultimately be a matter of standing of the observer, and refers rather to "how" and "by whom" development is promoted. Central to this view and conceptualization is *the leveraging of place-specific resources through enabling political and institutional mechanisms of governance and development administration*⁴, leveraging that constitutes the critical difference between genuine local development and the many forms of "localization" of national, multi-national or global development objectives. Once we understand that the defining feature of local development is the mobilization of a wide range of *place-specific* resources via effective *political* and *institutional* mechanisms of governance and administration, we can then integrate such feature in the concept of territorial development and advance the following definition: **Territorial development is spatially coordinated local development that leverages the interaction of actors operating at multiple scales of development planning and administration**

Fig. 1



⁴ Which are local, infra-local and supra-local

The above definition clears the way to an understanding of the “*Territorial Approach to Local Development*” as a *developmental policy* that national governments in decentralizing States may want to adopt, and international development partners may want to support, in order to (a) unleash the full potential of LD for national economic growth and social cohesion and ultimately (b) bring to fruition the developmental promises of decentralization reforms.

Based on the above definition of territorial development we can then start pointing at the *defining features* of a “*Territorial Approach to Local Development*” policy. These are:

- a) Understanding the *endogenous* nature of local development and empowering local authorities with the autonomy necessary to reach out to a wide range of local actors and mobilize and leverage local resources;
- b) Understanding the *integrated* nature of local development and strengthening the institutions of strategic social/economic and spatial/environmental planning and management, institutions that are needed to overcome sectoral fragmentation of development interventions by national and sub-national administrations;
- c) Understanding the *multi-scalar*, open nature of local development and managing the risks of hyper-localism, by supporting effective mechanisms for multi-stakeholders consultation, negotiation and collaboration, involving multiple local, infra-local and supra-local jurisdictions.
- d) Understanding the *incremental* value of local development over the simple localization of national development policies and programs, and advancing both the decentralization policy reforms and the new national urban and rural development agendas that are critical to facilitate the creation of such incremental value.

The above understanding of local development is therefore the *first* pillar on which a TALD rests.

The *second* one is an understanding of the *comparative advantages* that local authorities have, for the promotion of local development as defined above, over other public, private and community actors in the local space. These advantages have been long recognized. They include (i) a broad mandate for the economic and social welfare of the local community, which goes beyond the specific services delivery responsibilities that may be assigned to them by national legislation, (ii) a political legitimacy to assume responsibility for coordination and integration of the activities of multiple actors in the locality, (iii) a normative capacity and the ability to influence local development through bylaws and other regulatory measures, (iv) the potential for being more responsive to local demands because of their being entirely local institutions with substantial discretion, and (v) a high degree of stability as a permanent feature of the local institutional environment. The table below summarizes the comparative advantages of local authorities over other categories of actors potentially involved in local development planning, financing and implementation.

Table 1 - The comparative advantages of local authorities for promoting local development

Required approach	Institutional quality	Local authority	State and para-state agencies	Private Sector companies	NGO and CSO
Comprehensive	A broad mandate (not just specific functional responsibilities)	X	-	-	-
Facilitative	A political legitimacy for cross sectoral coordination	X	?	-	?

Required approach	Institutional quality	Local authority	State and para-state agencies	Private Sector companies	NGO and CSO
Normative	A governmental authority with local policy-making and regulatory mandate	X	X	-	-
Responsive	An entirely local institution (with self-contained decision powers)	X	?	?	?
Long-term	A permanent, stable feature of the local institutional environment	X	?	?	?

[Adapted from Jeb Brugmann, Who Can Deliver Sustainability? Municipal Reform and the Sustainable Development Mandate,” Third World Planning Review, Summer, 1994.]

Yet such comparative advantages are, to a large extent, just potential ones as their full realization depends on the constitutional and legal framework within which local authorities operate, on the actual degree of autonomy they enjoy, and on the accountability relations that link them to the central State and to the people of their jurisdictions.

A final point to make before articulating a comprehensive definition of the Territorial Approach to Local Development is that such approach should be thought of as a multi-dimensional⁵ *national* policy that actually represents the “missing link” between decentralization reforms and local development outcomes. It is now well established that the relationship between decentralization and development is really indeterminate, and that attempts to measure it directly have been inconclusive (and often misguided)⁶. In fact for decentralization reforms to result in positive developmental impacts, a number of complementary policy and institutional changes at both national and subnational level need to occur. If, as it has been the case in many decentralizing developing countries, decentralization reforms are driven only by an immediate political rationale and are not conceived as part of a wider national policy to support genuine local development (which is referred to in this note as TALD) it is unlikely that they will automatically result in improved local development outcomes.

In conclusion, summarizing the above discussion leads to a comprehensive definition of the Territorial Approach to Local Development (TALD) as a *national policy* that:

1. Recognizes that local development is not only *endogenous* (leveraging place-specific resources) and *incremental* (supplementing national development efforts), but also *multi-scalar* (requiring interactions of multiple tiers of governance and administration) and *spatially integrated* (coordinating sector interventions through a local spatial development framework), and
2. Recognizes that primary responsibility for planning, financing and managing local development falls onto developmental local authorities, empowered with a meaningful degree of *local autonomy* (powers of initiative and freedom from opportunity controls) operating within a system of effective *accountability* relations (upward and downward).

In short: **A “Territorial Approach to Local Development” (TALD) is a national policy that promotes endogenous, integrated, multi-scalar and incremental local development by empowering autonomous and accountable local authorities.**

⁵ The multiple dimension of a national TALD policy are further elaborated later in this note.

⁶ The Role of Decentralization/Devolution in Improving Development Outcomes at the Local Level: Review of the Literature and Selected Cases. Local Development International LLC (2013)

1.2 Why a TALD is increasingly relevant for global development?

As globalization advances, national development policies in most developing countries are framed by efforts to connect the national economy to the global one, promoting its “outward orientation” and competing for investment of global capital and access to world markets.

As the connection between the domestic and the world global economy is made primarily through major cities, where the required human, financial and logistic resources are typically concentrated, the spatial model associated with an outward oriented economy tends to be one of growing imbalances, across a wide range of economic and social indicators, *between* the globalizing cities and the rest of the country, as well as *within* the globalizing cities themselves.

But territorial imbalances, while exacerbated by globalization, are not created by it and often reflect, and build upon, historically determined differences in the endowments of localities with natural as well as human, social and institutional resources. Attempts to deal with them are not new and have led to the adoption (or more often just the rhetorical commitment to) a range of policies aimed at re-balancing what is seen as a spatially “uneven development”. Typically, such policies have aimed at correcting territorial disparities through increased public spending (mostly for infrastructure building) in depressed or marginalized areas, via a variety of regional development programs. And when the central concerns have been the widening intra-urban disparities in major globalizing cities, most public spending has been directed to upgrading housing and sanitation conditions in fast growing slum areas.

The results have been mixed, depending on context and seriousness of effort, but generally inadequate to stop, or substantially slow down, the continuing growth of both regional and intra-urban disparities. The problem with these policies is both conceptual and practical.

Traditional, centrally financed and managed efforts to promote regional development, through a spatial diffusion of infrastructural investments, or to improve slums through public investment in housing and sanitation, have tended to follow a strictly sectoral logic and a top-down approach in planning and implementation, reducing their effectiveness and often leading to a waste of resources. A more selective and integrated territorial approach to public spending, replacing sectoral logics and priorities with integrated “packages” of mutually supporting multi-sector investments guided by a local development vision, has been difficult to emerge and implement under conditions of political and administrative centralization.

But more generally, and even more critically, the scale of the territorial disparities that traditional “balanced development” policies intend to correct appears to be beyond the possibilities of public spending in both developed and developing countries when resources are seriously constrained by both external and self-imposed pressures to maintain fiscal discipline, lower taxes and cut expenditures. Indeed the scope for directly addressing territorial imbalances through increased public spending at the periphery (of a country or of a city) appears to be quite narrow for a State simultaneously promoting the liberalization and outward orientation of the country’s economy. The scope is also conditioned by the vagaries of the global economy; while protracted periods of sustained growth may provide some fiscal space for expanding regional and urban infrastructure, a slowdown or contraction of global economic activity may hit particularly hard a strongly extroverted economy, and public spending at the periphery will typically be the first to suffer.

Over the last three decades, the reduced margins for, and the limited effects of, traditional policies for “balanced” spatial development, has led not just to their scaling down, or outright abandonment, but also to the radical questioning of whether “balanced” development itself should be pursued or, the inevitably “uneven” nature of economic development should rather be accepted (at least to a certain extent and as a temporary condition). This is the basic message of the World Bank’s 2009 WDR, which has the merit of exposing how ill-conceived policies for territorial redistribution could negatively affect growth and ultimately even poverty reduction. But more recently, serious concerns have emerged in the opposite direction, pointing at the negative effects that the social and spatial inequalities associated with “uneven” development might eventually have on growth. A consensus seems to emerge, that social and spatial inequalities may not only result in high social costs and political risks, but may also compromise the prospects of accelerated and sustained growth in both developed and developing countries. The implication is that, rather than abandoning the search for spatially and socially balanced development, efforts should be made to develop a new set of more realistic, selective and effective policies to achieve it. These are required both to broaden the territorial footprint of economic growth and to expand access to social services in an age of globalizing economies and restructuring of the welfare state.

To take advantage of the opportunity for economic growth offered by globalization, while limiting the risks of the growing social and spatial inequalities potentially associated with it, a new “middle road” must be found between closure and openness, between equity and growth. Realistic attempts at correcting territorial disparities will have to rely on both (i) a rebalancing of the very economic model that generates them, towards greater support to internal demand and the development of the domestic market, and (ii) a shift from sector-based top-down spatial redistribution policies, to policies that more selectively fit local development strategies and fill critical resource gaps, and help localities, particularly smaller cities and their rural hinterland, to emerge as competitive nodes of the global economy and respond to opportunities offered by both domestic and global markets.

Also, new approaches are needed to inject realism in any system for public sector’s delivery of basic services in developing countries, taking into account the degree to which such provision already makes use of non-public (community-based and private sector) providers. Also those developed countries where the retreat of the traditional welfare state may put at risk social cohesion should give new attention to opportunities for co-provision and co-production arrangements with community and private sector services providers. Both are made urgent by the same structural constraints on public spending that limit traditional social and spatial redistributive efforts as discussed above.

Clearly, diffusing economic growth and preserving or enhancing basic social services will require a smarter, more strategic and more locally-responsive use of limited central State resources as well as the mobilization of additional local resources from communities and private sector. Yet, none of this will be possible without an acceleration and consolidation of a process commonly referred to as the “downward re-scaling” of the State, at the core of which is the emergence of developmental sub-national authorities empowered with a meaningful degree of autonomy and embedded in effective networks of accountability relations. And typical features of a *re-scaled* national State, are local authorities that no longer operate as just managers of nationally planned and funded investment and welfare programs but take on a much greater entrepreneurial role identifying and building upon the competitive and comparative advantages of their jurisdictions, mobilizing the widest possible range of resources of their localities (first and foremost the local social capital), and reaching out to local communities and private sector in order to both enhance the prospects of local economic growth and help maintain or expand social service delivery.

The need to embrace and effectively manage such downward re-scaling of the State and facilitate the emergence of the required developmental, autonomous and accountable sub-national authorities, provides the core rationale of the national policy referred to in this note as the “Territorial Approach to Local Development” (TALD). Such policy is based on recognizing the new role that sub-national authorities must play to face the challenges of economic and social development in a globalizing world. Its adoption by decentralizing countries would then make the difference between politics-driven decentralization reforms and the actual empowerment of autonomous and accountable sub-national authorities which is a critically missing link between decentralization and local development.

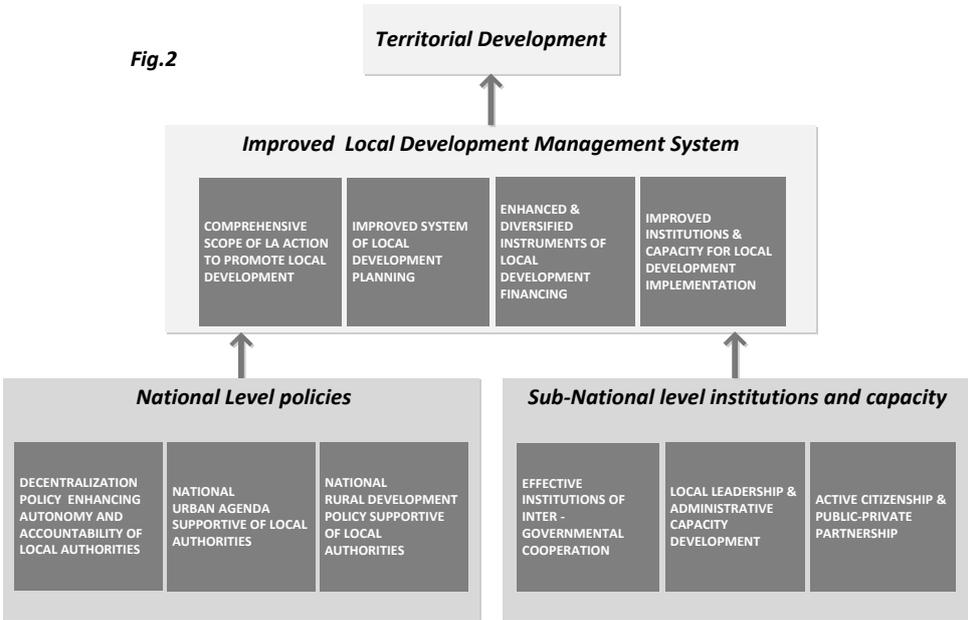
2 THE TALD IN PRACTICE: BUILDING BLOCKS AND ADAPTATION TO CONTEXT

2.1 The “building blocks” of a TALD policy

Having characterized the Territorial Approach to Local Development (sect. 1.1) as a *key national development policy* to translate the promises of decentralization reforms into actual development outcomes, we must now turn to reviewing its substantive dimensions.

To this end, we first review the “steps” of the local development (LD) management cycle, including: (a) *scoping out*, (b) *planning*, (c) *financing*, and (d) *implementing* local development interventions, and highlight the issues arising at each step that affect the delivery of *endogenous, integrated, open and incremental* LD. We should then be able to relate such issues to the policy reform, institutional changes and capacity building that national and sub-national authorities may need to undertake to bring about and sustain an improved LD management cycle.

We refer to changes in the LD management cycle and the policy and institutional reforms needed to support them as the “*building blocks*” of the Territorial Approach to Local Development. These are summarized in Fig 2 below and elaborated in the remainder of this section.



The normative viewpoint taken here should be understood as a purely analytical device aiming at clarifying the main challenges associated with the adoption and implementation of a TALD policy. As we argue below (sec. 2.5) the way such challenges should be faced and prioritized in practice is highly context-specific and experimentation and piloting is usually needed to find ways in which progress on any of the TALD dimensions may be made in practice.

2.2 Improving the local development management system

2.2.1 Expanding the scope of LA action to promote local development

In terms of their substantive/sectoral scope, Local Development interventions may be concerned with (a) delivery of social welfare and human development services, (b) promotion of economic activity and employment creation, and (c) management of land and other natural resources and protection of the environment.

But what specific responsibilities should local authorities assume within the three substantive areas broadly defined above? The standard fiscal decentralization theory has provided a general answer: LA capacity should dictate LA functions which in turn should dictate LA finances. It has also made the capacity-functions-resources sequence the foundation of any inter-governmental “functional reassignment” process. It is difficult to argue against the logic of the capacity-functions-resources connection and indeed it should guide the reassignment of central functions and resources to sub-national authorities through fiscal and administrative decentralization measures.

Yet, if local authorities are recognized as political actors in their own right and not just as agents of the State in the locality, the purely administrative perspective of most recommendations based on standard fiscal decentralization theory misses two important points.

The first is that the relationship between capacity, functions and resources is dynamically circular rather than linear, with the implication that, under appropriate contextual conditions, resource transfers may well initiate, rather than follow, capacity building and functional reassignment processes. This is the case when the availability of a minimum of locally programmable resources is a pre-condition for (often newly established) LA to undertake a rudimentary, yet meaningful, process of development planning, programming and budgeting and develop capacities for local public expenditures management. It's also the case when resources are transferred by central agencies to LA through implementation contracts whose purpose, besides the improved delivery of certain services may also be that of building local capacity in preparation of a possible devolution of such service delivery responsibilities.

The second and even more important point is that what local authorities should or could do, may not be restricted to *specific functions* dictated by national fiscal decentralization policy. Whether *de jure* (because the principle of their *general competence* is enshrined in the constitution or the law) or *de facto* (because of large “grey areas” in the definition of their functions), local authorities may be able to do much more than perform only specific, legally devolved or delegated tasks. Actually they may have considerable room for maneuver in developing, funding and implementing programs and projects that are not part of any explicitly assigned set of functions and yet respond to a local demand and enhance the welfare of the local community.

A critical feature of the improved LD management cycle associated with an effective TALD policy is therefore the empowerment of LA to fully act on *both* their roles as (a) agents of the central state in the locality and (b) representatives of a local political constituency. In all three substantive/sectoral areas of LD indicated above, (social services delivery, economic activity promotion, environmental management) Local Authorities should be able to both:

- a) Contribute to the adaptation and implementation in their locality of *central* policies/programs, and improve the allocative and productive efficiency of national resources, and
- b) Develop their own *local* policies and programs in response to the priorities of their political constituencies and mobilize and leverage additional local resources.

This raises immediately the issue of *autonomy*, as LA will *not* be able to effectively carry out any of the two above tasks, without a meaningful degree of local autonomy. We return to this critical point, (and its accountability counterpoint) when discussing the policy and institutional changes needed to support an improved LD management cycle. Here we just note that the issue of autonomy cuts across and affects all steps of the cycle.

2.2.2 Improving local development planning

Decentralization reforms change a country's governance and public administration and turn it into a *multi-level system*, with new entities responsible for policy making and implementation at different tiers of the spatial organization of the State. As a consequence, public sector responsibilities for development planning, financing and implementation are *no longer exclusively assigned* to the national administration, but must be effectively shared between the national and sub-national units of governance and public administration.

This obviously raises a problem of *coordination*. The traditional mechanisms of hierarchical command and control that operate *within* a single, centralized administration, are no longer applicable to the relations *between* a central and multiple other local authorities. They must be replaced by new mechanisms of consultation and negotiation and new forms of legality controls and performance monitoring that are respectful of the relative autonomy of the new entities.

Yet, as further elaborated below, most decentralizing States remain ambiguous, at best, about the scope and level of local autonomy and this translates into continuing confusion between genuine *local planning* and the *localization of national plans*. Where politics-driven decentralization reforms stop short of creating LA with meaningful autonomy, LD planning is reduced to the adjustment to the locality of the policies, programs and projects of the central administration, while it becomes difficult to fully reveal local demands and mobilize additional financial and non-financial resources from local stakeholders (two critical feature of *endogenous* and *incremental* LD).

Central to a TALD is therefore the recognition of the conceptual *difference* and *complementarity* of (a) local planning and (b) the localization of national (or even global, as in the case of the MDG) development objectives.

In practice this requires the development of a sub-national planning system which is both *distinct from*, and appropriately *articulated with*, the national planning system of the central administration (the one typically managed by a Ministry of Planning, a National Planning Agency or the Ministry of Finance). Such system should include and support both (i) the corporate planning processes of autonomous LA

and (ii) effective mechanisms for horizontal and vertical coordination of such plans with those of multiple other planning units (national agencies, higher or lower tiers LA, private and non-profit organizations).

While they cannot be elaborated here in detail, the key issues in developing an effective sub-national planning system must be highlighted. They include:

- a) The identification of relevant territorial scales of integrated, socio-economic and spatial-environmental planning. This requires differentiating between *regional, metropolitan, urban, rural and other areas* planning and may call for new inter-jurisdictional institutional arrangements for integrated LD planning, financing and implementation.
- b) The strengthening of LD planning institutions, recognizing the political (and not purely technical) nature of LD planning and building the local policy-making capacity of multiple local stakeholders. This requires organizations and procedures for evidence-based local political deliberations and people's participation, as well as local administrations' capacity for program and project planning, appraisal and evaluation.
- c) The choice of appropriate LD planning instruments (strategic spatial and socio-economic plans, both jurisdiction-wide and LA corporate, multi-year "rolling" investment programs and annual capital and recurrent budgets). This requires emphasizing strategic over comprehensive approaches, and practicality over technical sophistication, to make local plans both (i) reflective of a local political agenda and (ii) adjusted to the organization, and capacity to deliver, of local administration's departments and their private and community sector partners (which varies dramatically across countries and sub-national jurisdictions).
- d) The design of a transparent, cost-effective and synchronized LD planning process, which (i) proceeds logically through the stages of analysis, strategy formulation and programs/project preparation, maximizing at each stage the opportunities for structured and well informed citizens' participation and political deliberations, and (ii) is also aligned with national/regional planning and budgeting deadlines to allow for meaningful interaction and negotiations prior to the finalization of annual resources allocation processes at national and sub-national levels.
- e) The development of an effective LD planning support system, one that provides demand-driven technical assistance and facilitation services and that, while respectful of local autonomy, carries out critical legality control and external performance monitoring activities, to help LA improve the quality of their planning and better interact with the national planning system. Most often this requires overcoming the existing considerable confusion and competition that affects the multiple central agencies who may have a legitimate role to play in such support system (i.e. Ministries of LG, Territorial Administration, Interior, Finance, Planning, PA Reform, Others/Sectoral)

2.2.3 Diversifying local development financing

The availability of a diversified range of LD financing instruments is essential for the improved LD management and is at the core of a TALD policy. These instruments may be conveniently classified as (a) own source revenue, (b) transfers (c) specific investment windows, (d) access to domestic and international capital market, and (e) contractual financing arrangements.

While this is not the place to discuss in detail all instruments of LD financing, they are quickly listed below to highlight some of the basic issues that a TALD policy may need to address. They include:

- a) The empowerment of LA with some meaningful own sources of revenue (both tax and non-tax) and with the ability to define the base and the rate of appropriately local taxes. Several sources of revenue might be tapped by LA, depending on country contexts, and the official list of taxes and fees assigned to LA is often a long one, but equally often their potential yield is marginal and the cost of assessing and collecting them is disproportionately high, making local taxing powers more a fiction than a reality. In many cases, the most appropriate and productive local tax, deserving national attention and external support, is a well-designed property tax, which in turn may require the introduction or improvement of a cadastral system with a technology appropriate to local conditions and capacities.
- b) A well designed system of inter-governmental fiscal transfers (both unconditional block grants and purpose-specific facilities). In this category, of particular importance are the formula-based annual block grants which, in many decentralizing Least Developed Countries (LDC), provide the main, if not only, source of locally programmable funds, and which have been often piloted and/or complemented by externally-resourced “Local Development Fund” (LDF) facilities. Stabilizing and, where appropriate, increasing such transfers, while providing incentives to counter the local political bias towards extreme fragmentation and exclusive concentration in small-scale infrastructure projects, will be a challenge for an effective TALD policy with respect to this financing instrument. More generally the design of inter-governmental transfers, and the balance between unconditional and conditional instruments, on which considerable experience has been gained in the last three decades of decentralization reforms, will need to be supportive of both an expansion of the autonomy and a strengthening of the accountability of LA.
- c) The set-up of specific investment windows to serve the needs of local investments preparation and financing. If pay-as-you-go financing (through own revenue or LDF-type grants) is the only option, larger, more strategic and more viable investments may be rejected in favor of smaller, less attractive, but immediately affordable, ones. Or their implementation may be split in multiple small annual tranches, increasing costs and delaying benefits. This could be avoided by establishing dedicated facilities to finance LA investments of larger size and more strategic impact. Examples are the Municipal Development Funds (MDF), often set up with substantial external aid. But also Social Investment Funds (SIF) and even some Community Driven Development (CDD) programs could be counted among such facilities, where they have evolved into instruments of financing of LA investments. Conceived as specialized domestic financial institutions to extend concessional credit to local authorities, MDFs could only assist a limited number of creditworthy urban/metropolitan authorities while many smaller urban and rural authorities remained excluded. Also, while MDFs were expected to popularize innovative *project-financing* schemes, the complex institutional and legal arrangements associated with such schemes proved to be beyond the capacity of all but the more developed metropolitan and urban authorities. And when, through automatic intercept mechanisms, future revenue from inter-governmental transfers was pledged to repay MDF loans, the incentive for proper financial appraisal of the investments was lost, and local politicians could shift resources from future service delivery and O&M spending, to bricks-and-mortar pet projects, without having to prove that these were welfare enhancing, let alone pro-poor. By extending grants to LA, rather than loans, SIFs could avoid those difficulties. But SIF were never conceived as windows of financing of local *authorities* investment programs. They were born, and have remained, central agencies with the mandate to implement *national* pro-poor

policies by financing (and often directly delivering) community-level, social infrastructure projects. Indeed, Social Investment Funds offer to LA an opportunity to shape the local content of a *national* program, not necessarily the financing of their own investment priorities. And to do that at the pace required by pressures to disburse the relatively major external resources with which they were endowed, they may not rely on local statutory, but weak, planning procedures, but replace them with SIF-specific projects selection processes that may be difficult to institutionalize and sustain. The challenge of a TALD policy with respect to LA investments financing will be to build on the MDF and SIF experiences and support the development of effective institutions dedicated to both building capacity of, and providing financing to, LA , for investment planning, appraisal and implementation. This will require combining technical assistance and training services with an appropriate mix of grants and loans. Importantly these institutions could also play an important role in facilitating LA access to the domestic and international capital market, by setting up risk-reducing pooled financing mechanisms (see below).

- d) Facilitating LA access to capital markets. Issuing bonds to finance investments is potentially a sound option for local authorities. In the last decade, international aid agencies have been active in assisting LA to access domestic and international capital markets to finance their investment needs, particularly in sectors such as water supply and sanitation. However, worldwide evidence suggests that the development of a sub-sovereign bond market depends on a supporting regulatory environment, a diversified financial sector and appropriate capacity for debt support and management by local authorities. Only in more advanced developing and transition countries do such conditions exist, and even there, bonds have been issued almost exclusively by subnational state governments and major cities. Nevertheless, attempts have been made more recently to establish “pooled financing” mechanisms that reduce risk for bondholders and help overcome the capacity limitations of smaller and less endowed jurisdictions to individually access the capital market. From a political economy perspective, to the extent that issuing bonds requires an official rating of the local authority’s creditworthiness, the prospect of bond financing of local investments, may exert pressure on local politician for fiscal discipline and improved financial management practices. Unfortunately, such incentives may be diluted or reversed where access to bond financing is made possible by credit enhancement mechanisms that are poorly designed and transfer all or most of the default risk to the national treasury. A TALD policy should be built on lessons learned from the more promising international experiments and particular attention should be given to the needs of smaller less endowed jurisdictions.

- e) Developing effective contractual financing arrangements. Where the devolution to LA of specific functions is made difficult by inter-jurisdictional equity or other national policy considerations, or when such devolution is not immediately feasible because of capacity limitations, contractual delegation arrangements could provide an effective solution. Under such arrangements a national agency would remain responsible for goal-setting, financing and monitoring the delivery of a particular service, but would “contract out” to concerned LA detailed planning and implementation tasks. As much of the resistance to devolution has been based on the argument of lack of local capacity, one would have expected a greater recourse to the contractual delegation arrangements. In fact they would provide an opportunity to maintain central guidance and monitoring, while building local capacity via a “learning-by-doing” approach. Yet this has not been the case, typically because central agencies are both unwilling to give up direct delivery and disbursement tasks, and unable to act as mentors and supervisors of LA departments operating as relatively autonomous contractors. As a result, the resistances to delegation have prevented LA from assuming greater responsibilities in sectors like education and health, and from contributing

their own resources or mobilizing other local resources. A challenge of a TALD policy would then be to support the piloting and replication of appropriate contractual delegation arrangements and related contract financing as part of the broader discourse on functional reassignments and fiscal decentralization reform.

2.2.4 Building local implementation capacity

An improved LD management cycle also depends on the possibility for LA authorities to procure local infrastructure and services through modalities that allow for mobilizing and associating local resources and capacities to the implementation of LD interventions. This may require both (a) an improvement in the regulatory framework of local-level procurement and (b) the building of capacity for effective procurement among the multiple actors involved in the implementation of LD interventions.

- a) Improving the regulatory framework. Rigid approaches that simply reproduce central administration's rules and regulations may work against local resources mobilization and, at the same time, may actually create strong incentives to circumvent the rules. For example, legal rigidities and inadequate central guidance on procurement may make it difficult to build infrastructure through community contracting or to deliver services using innovative community co-provision and co-production arrangements, whose legal format may have to be developed from scratch. Also, rules intended to introduce open competitive procurement procedures, if not adapted to the conditions of the locality (particularly if small and isolated), may actually impede legitimate efforts to leverage local social capital, strengthen local-level public-private cooperation and help develop the local construction industry. And indeed inappropriate procurement rules do create incentives to work around them, as can be seen in the widespread practice of artificially breaking the procurement of larger projects into several contracts of smaller value, or, worse, of choosing certain projects over potentially better ones just because their very small size allows avoiding the competitive bidding that has been made mandatory above a certain (often too low) threshold.
- b) Building local capacity for implementation. Beyond the legal framework of local procurement, an improved LD management cycle depends critically on the implementation capacities of the actors involved. These include the capacity of LA to manage the procurement process, the capacity of local technicians and contractors to deliver quality services and works, and the capacity of civil society organizations, private sector firms and local communities to both participate in, and monitor the infrastructures and services delivery processes.

LA capacity to manage the local procurement of infrastructure and services is generally a function of the size and development level of a jurisdiction and it is particularly low in small rural local authorities in LDCs. Efforts to build such capacity are costly and institutional arrangements for inter-jurisdictional cooperation and delegation of the procurement function should be explored to optimize the impact of programs building capacity for procurement in LA administrations.

Capacity development of private sector technical service providers (engineers, planners, IT technicians, etc.) faces different constraints. Local authorities could use the private services, but in many countries the emergence of a private consulting industry that could sustainably serve the needs of local infrastructure and service delivery, requires innovative national policies to increase and stabilize the size, and make transparent the operation of, the market for services to local authorities. Similar considerations apply to the local contracting industry, the development of

which is constrained by the low volume of works available annually in a single jurisdiction. In this respect, the strong political preference of local authorities for “buying locally” may actually work against the interests of the most capable local construction firms penalized by the extreme segmenting of the market. The construction service industry would actually be helped by the development of supra-local (regional) markets where they could compete annually for multiple contracts, until their level of capacity launches them onto the national market.

Finally, community capacity for oversight of the implementation may have a positive impact on the quality, timeliness and cost-effectiveness of local infrastructure and services delivery. This, however, requires the definition of clear rules of engagement of the concerned communities in the procurement process. When this is not the case the consequences may be either an ineffective and cosmetic role for community monitoring, or, at the other extreme, the possibility for community groups to illicitly extract concessions from contractors (in the forms of materials leakages and/or undocumented extra work) that may eventually be recouped through quality reduction or cost increases paid by the local authority.

2.3 National policy changes to support territorial development

From the above review of the Local Development management system it should be clear that enlarging its scope and improving its planning, financing and implementation require both national and sub-national policy and institutional changes. This section reviews the most critical reforms, which are primarily under the responsibility of national authorities. The following section reviews changes for which primary responsibility falls on local authorities themselves.

2.3.1 Decentralization to enhance LA autonomy and accountability

Decentralization reforms in the real world are driven by politics, not by development. Yet decentralization reforms may open new ways to advance development goals. As D. Norton et al. put it, in their broader discussion of the transition to open societies in developing countries “*The changes in institutions, organizations, and behavior that occur during the transition must be explained as intentional acts consistent with the interests of the dominant coalition, but the results of those changes need not be consistent with their intentions.*”⁷ It is the task of effective political economy analysis (PEA) of decentralization reforms to reveal whether and how the reforms may actually (a) open or close space for positive State-society interaction and (b) promote or impede genuine local development.

Key factors mediating decentralization reforms and local development outcomes, which should therefore be at the centre of the reforms’ PEA, are (1) the scope of the LA’s responsibility for local development and (2) the level of autonomy and the accountability mechanisms that shape their behaviour.

We have already suggested that the scope of LA’s action to promote local development depends first and foremost on the constitutional/legal recognition of:

⁷ D. North, J.J. Wallis, B.R. Weingast (2006) [A Conceptual framework for interpreting recorded human history](http://www.nber.org/papers/w12795), NATIONAL BUREAU OF ECONOMIC RESEARCH Working Paper 12795, <http://www.nber.org/papers/w12795>

- (a) Their being “political” actors (i.e. self-government mechanisms of a local political constituency) as opposed to having a purely “managerial” identity (to deliver a specific set of services); and of
- (b) Their having a double mandate (i.e. both a “general competence” for the welfare of their communities and a responsibility for “specific functions” devolved or delegated to them).

In the real world, there are many ways in which the two above principles may be understood and operationalized, both *de jure* and *de facto*, and PEA is particularly important to understand their rationale and possible evolution. Most importantly, whatever the situation may be in any given country, the relation between decentralization reforms and development outcomes will be further mediated by the actual *autonomy* and *accountability* of LA. Decentralization reforms that expand and promote both the autonomy and accountability of local authorities are therefore at the core of a TALD policy.

Autonomy is about the LA’s “power of initiative” and “immunity” from opportunity controls (as opposed to legality controls). It refers to the ability of LA to take any action (adopt any policy and implement any program or regulatory measure) that addresses local needs and priorities, with the only limitation of the legality of their acts. The critical role of autonomy for local development (as defined in this note) is clear. Decentralization is expected to promote development through two distinct processes (a) Improving the allocative and productive efficiency of public sector resources in a locality and/or (b) mobilizing and bringing to bear on the national development effort additional resources from local communities and private sector. Autonomy is essential for both. LA would not be able to do better than de-concentrated agencies of the national administrations if they were not given substantial autonomy in adjusting and managing the implementation of national programs in their localities. Even more, they would not be able to mobilize additional local financial and other resources if they were not able to develop their own policies, programs and projects in response to the priorities of the owners of such additional resources. So a lack of autonomy (a) reduces the scope of potential efficiency gain in public expenditures, (b) Impedes additional resource mobilization for “local” development, and (c) ultimately results in the State giving up the potential benefits of *local* development.

Accountability is about LA’s responding of their acts both upward to the State and downward to their constituencies. Upward accountability refers to LA operating within the national constitutional and legal boundaries and in ways that do not compromise national goals and development policies. This requires the setup, or strengthening, of appropriate institutions for State support and supervision to the LA system. *Support* refers to inter-governmental facilitation and technical assistance services delivered through an appropriate mix of supply- and demand-driven approaches. *Supervision* refers to both independent performance monitoring and appropriate legality controls. The importance of appropriate State support and supervision systems cannot be overemphasized, yet these are often the weak link in the design and implementation of real world decentralization reforms, as numerous perverse incentives are at work, within the central administration, against their effective operation. With respect to their local political constituencies, LA accountability refers to LA operating through transparent and participatory process of deliberation and public expenditures management, and subjecting themselves to appropriate forms of social auditing of their performance. Where upward or downward mechanisms do not work, the resulting lack of accountability (a) increases the risk of LA run “out of control” (generating macro-economic imbalance, territorial disparities and public investment inefficiencies), (b) increases the risk of capture of LA by local elites and (c) lowers the efficiency of devolved resources reducing *the central State’s capacity* to promote growth and reduce poverty.

Yet, many processes of restructuring the sub-national governance and administration systems, perhaps too hastily referred to as “decentralization” reforms, have failed to promote LA autonomy and accountability and thus have not promoted local development. This is not surprising as such processes are neither initiated nor designed to promote LD in the first place. Driven by *politics* they quickly stop short of empowering local political actors beyond what is strictly functional to an immediate political gain of the dominant coalition. Also the place given to *development*, in the rationale (or rhetoric) of decentralization reforms, depends first and foremost on the very nature of the decentralizing State (whether “neo-developmental”, “neo-liberal” “neo-patrimonial” or just “predatory”) and even when development is prominent in the official discourse, this may not extend into a concern for *local* development and for the enhancement of LA autonomy and accountability. In the real world, many politics-driven decentralization reforms either lack *any* developmental rationale or miss the *local* development rationale.

Therefore, enhancing both the autonomy and accountability of LA, through paths that may be illuminated by the political economy analysis of decentralization reforms, is critical to facilitate a territorial approach to local development that decentralizing national governments may want to adopt and their development partners may want to support.

For the latter, this means remaining engaged in policy dialogue and programmatic support to the decentralization reforms processes in partner countries, while encouraging policy experimentation through initiatives that pilot improved LA autonomy and accountability arrangements, and take advantage of the opportunities that the reforms may open for advancing local development.

2.3.2 Adopting a supportive national urban development policy

For all its critical importance to enable it, decentralization *is not the only national policy* needed for an effective territorial approach to local development. Enhancing the autonomy and accountability of local authorities is a necessary condition, but much of the developmental effect of such enhancement will also depend on adopting the right national urban and rural development policies.

A national urban development policy, consistent with the new institutional architecture created by decentralization reforms and empowering local authorities with access to technical and financial resources of urban-related national programs, is a potentially major factor to ensure that decentralization reforms translate into territorial development outcomes.

Through multi-sector programs, jointly designed and implemented by central and local administrations, a national urban policy should then address the key issues raised by the urbanization process. These issues include:

- a. The need to develop a more balanced urban settlement system. Infrastructure and other investments funded under national programs for urban development will need to be targeted in both metropolitan areas and secondary urban nodes (medium-sized and small cities) with the greatest potential to grow and promote the development of surrounding and lagging rural/regional areas.
- b. The strengthening of spatial planning. This will require national authorities to provide the legal, and regulatory framework, and often technical and financial support to local authorities for the preparation of strategic spatial development frameworks, appropriate land use control and

management plans and institutions. All these are critical to make room for accelerated and often explosive urban growth, address infrastructure and services gaps, improve mobility, fight congestion and protect the environment.

- c. The need to invest in land, Infrastructure, housing and services. This will require national authorities to provide the enabling legal and regulatory environment, the direct investments and the access to dedicated facilities and instruments for financing of urban projects, which are essential for local authorities to implement their spatial and socio-economic local development plans and, most critically, to improve the conditions of slums and squatter settlements.
- d. The need to invest in local environmental management. This will require national authorities to provide the legal and regulatory framework, the direct investments and the technical and financial support that local authorities need to address the environmental issues associated with both rapid urbanization and climate change. Such issues most often arise from conflicting land uses, land erosion and exposure to floods, air and water pollution as well as inadequate solid waste and wastewater management systems.
- e. The need to develop the urban economy and generate employment. This will require setting up multi-level consultation and support mechanisms to help local authorities formulate and implement strategies for local economic development and employment creation, including value chains analysis and development, as well as adequate measures to support an often large and vibrant informal sector.

Many of the above issues have long been at the center of national urban policies. Yet, what is required of the *new generation of national urban policies*, to be supportive of a territorial approach to local development, is a triple recognition of (i) the role that urbanization plays for national economic growth, (ii) the social and spatial inequalities associated with its current model and (iii) the emergence of local authorities associated with the re-scaling of the State developmental functions. In other words, the new national urban policies should:

- a. Value urbanization as a major transformative force generating new opportunities and challenges for both local and national development and consistently put cities at the center of the national development agenda.
- b. Recognize the importance of greater spatial and social equality both within major cities and between the urban and rural areas of a country, not just for social cohesion but for the very prospects of sustainable national economic growth as well.
- c. Recognize the primary role and comparative advantages of urban local governments in dealing with the opportunities and challenges of accelerated urbanization (ref. Table 1 in sect. 1.1.), thus in contributing to local and national development.

2.3.3 Adopting a supportive national rural development policy

The case for national rural development strategies that (i) reflect the new architecture of sub-national governance and public administration brought about by decentralization reforms, and (ii) support a territorial approach to local development in which autonomous and accountable local authorities play a central coordinating role, is, if possible, even stronger than in the case of urban policies. But it has also been more difficult to make it in practice, because of both stronger central bureaucratic resistances and lower political and administrative capacity of rural local authorities.

Since rural development was accorded a central place in national development agendas, its multi-dimensional features and the need for strong sectoral interconnections in any strategy aiming to promote it have been immediately recognized. The emergence of integrated rural development (IRD) projects in the 70's is a well-known reflection of such recognition. What is perhaps less well-known is that much of the early interest of the international development community in the potential benefits of decentralization reforms and empowered local authorities was originated by the search for a mechanism to manage integrated rural development, something that could replace the often successful, but costly and institutionally unsustainable IRD project management units (PMU).

Indeed, rural development is simultaneously concerned with economic growth, reduced vulnerability, good governance, social justice, and the provision of basic services. Strategies to promote rural development must go beyond agricultural growth and productivity enhancements and address the increasing importance of non-agricultural activities and strong urban-rural linkages. Required interventions under a national rural development policy and strategy may range from enhancing spatial connectivity and building productive infrastructure to supporting climate change adaptation, from delivering health services to fostering basic education and vocational training, from defining property rights to enhancing food security.

Packaging and sequencing such diverse interventions for maximum effectiveness in any given territory, calls for a degree of multi-level, inter-governmental coordination that is difficult to achieve under any circumstances, but that becomes even more difficult, if not simply impossible, when the critical, territorial cross-sectoral, coordination role that empowered local authorities could legitimately and effectively play is negated by a lack of empowerment and/or capacity of the local administrations.

The continuing reliance on top-down sector programs typically leads to fragmented, less effective interventions for rural development. But even when this can be somehow corrected by central-level inter-sector coordination efforts driven by exceptionally strong national leaderships (e.g. recently in Brazil), national rural development strategies that do not rely on empowered local authorities as key planning and implementation units, may also fail on another ground. They make it more difficult for the national government to recognize and flexibly support (through a spatially more selective allocation of scarce national resources) emerging local initiatives in more dynamic territories with a greater and more immediate prospect of growth by connection to the national and global economies.

This clearly points to the need for a new generation of national rural development policies that support the territorial approach to local development by promoting the role of autonomous and accountable local authorities as key planning and implementation units of national rural development strategies. Particularly important to this effect would be contractual delegation, dedicated technical and financial support mechanisms and effective oversight arrangements.

2.4 Sub-national policy changes to support local development

2.4.1 Developing effective inter-governmental cooperation

The emergence of autonomous and accountable sub-national authorities changes the architecture of the sub-national system of governance and public administration and raises entirely new issues of inter-governmental cooperation. It requires that the hierarchical relations between tiers of a single central administration be replaced with negotiated partnerships between distinct local and central administrations as well as between different local administrations operating at the same or different geographic levels.

Effective mechanisms for inter-governmental policy coordination and the development of such negotiated partnerships are typically difficult to establish because of both (i) lack of a clear constitutional, and/or legal, *distinction* between central state and local authorities, and (ii) capacity constraints and lack of investment in the administration of the newly established local authorities.

The need for consultation and coordination between emerging local authorities and central administration agencies, is often very clearly recognized (and sometimes even over-emphasized), but such recognition has led often to “solutions” that end up denying local autonomy and reproducing hierarchical controls, rather than building platforms for genuine inter-governmental negotiation and cooperation.

An example is the frequent violation, in the design of the new sub-national governance architecture, of the “non-subordination principle” (i.e.: no local authority should be subordinated to another local authority, while all should be subject to the oversight of the State), and the reproduction between tiers of local authorities of the same hierarchical relations that prevail among tiers of the central administration, (as it is the case, for example, when plans and budgets of a commune or district authority need the approval of a provincial or regional authority).

Another common practice has been the placing of both the sub-national units of the central administration and the administrative units of the emerging local authorities under the control of a centrally appointed regional or local governor, simultaneously acting as the executive of the local authority, and both as head of the local branches of the *central* administration and head of the *local* administration. Such arrangement, widespread in “decentralizing” developing countries, has been often justified by the lack of local capacity, and there is certainly truth in this argument. But it does little to facilitate the building of local capacity, including the transfer of critical human resources from the central to the local administrations and the strengthening of their accountability to local elected Councils. Instead, and regardless of the *de jure* recognition of their policy-making powers, it tends *de facto* to reduce the Councils to advisory bodies of the central administration operating in the locality.

Yet, where local authorities enjoy a minimum of autonomy and administrative capacity, mechanisms have been set up to improve policy coordination with central administration and to facilitate joint action by local authorities themselves. The former are particularly needed to articulate local/territorial planning and budgeting with centrally managed sector development programming, and minimize the risks of inefficiencies associated with both narrow localism and sectoral fragmentation in investment programming. The latter are critical to take advantage of economies of scale through joint planning and delivery of services and to develop the necessary second-tier institutional arrangements for governance of emerging metropolitan areas, city-regions and other territorial configurations that emerge to transcend existing administrative jurisdictions.

Providing the enabling regulatory framework and technical support to the development and institutionalization of these inter-governmental negotiation and cooperation mechanisms, is an essential feature of a territorial approach to local development, which understands the open and multi-scalar nature of local development as discussed above.

2.4.2 Developing local leadership and administrative capacities

Strong leadership and capable administration are twin aspects of a local authority's capacity. Both are essential for promoting territorial development and should then be addressed by local authorities' capacity building programs.

Local leadership understood and practiced as "*the pursuit of community well-being through the facilitation of strategic interventions that would not otherwise have happened and which are informed by and accountable to the public*"⁸, is critical for genuine local development.

Leadership is about winning the hearts and minds of followers, and getting them to act in new ways. It has been described as "transactional" and "transformational", where the first refers to managerial capacity to effectively lead a complex local administration and the second to the political capacity to articulate and sustain a local development vision. Both are required of genuine local leaders, but as local authorities, under the pressure of the State re-scaling process, must turn increasingly entrepreneurial, transformational leadership becomes critically important. Yet the emergence of genuine local leaders very much depends on (i) the space that is actually available to them for autonomous decision making (the extent of their powers of initiative and immunity from opportunity controls), (ii) on the extent to which the process of their election/selection facilitate the attraction of political talent to local government and (iii) on the political incentives that shape their action, i.e. the extent to which ability to promote local development is allowed to trump party politics in shaping political careers.

A capable local administration is about realizing the allocative and productive efficiency gains in public sector spending that are the central promise of decentralization reforms and it's critical for the improvements in the local development management cycle, which a territorial approach to local development aims at introducing. In contexts of severe constraints in both availability of skilled labor and ability to attract it to the local public sector, the development of capable local administrations requires a high degree of flexibility in the labor market including the ability to move civil servants from the central to the local public sector, the introduction of performance-based pay systems, the contracting of external service providers and the sourcing of critical skills in the open labor market. All this is bound to face resistances from the central State bureaucracy and from organized labor and often raises sensitive political issues that delay or compromise labor market reforms. Also, personnel issues and resistances to changes in roles and prerogatives of central administration staff, have been typically behind the failure of even modest attempts to delegate functions of the central administration to the local ones. The development of capable local administrations also requires training and re-training of local staff. Devising programs that do that in an effective and cost-efficient manner has typically been difficult, and examples of wasteful spending for training of public servants abound in both developed and developing countries.

More generally, it bears stressing that "capacity building" (whether to enhance leadership skills or develop a capable administration) is much more than "training" and that building capacity means to simultaneously (i) improve individual skills, (ii) improve the institutional settings (organizations and procedures) within which such skills can be effectively deployed and (iii) create an enabling policy and legal framework to facilitate both kind of improvements. Only so much can be asked from a mayor in

⁸ M.Geddes and H. Sullivan Delivering development through Local Leadership in the Commonwealth, Background paper of the CLGF Conference, Auckland, New Zealand, March 2007

the way of leadership if the policy and institutional environment in which she operates does not provide meaningful space for autonomous initiative. Similarly it is hard to expect effective and efficient performance from local administration staff when they operate within dysfunctional institutions that create powerful disincentives to professional performance.

However, it's also important to recognize that given any policy environment and legal framework, some space, limited as it may be, almost always can be found for improvements in either the institutions or the individual skills in local government. While sustainable reform eventually requires proceeding in a coordinated fashion on the three fronts of capacity building (policy, institutional and individual), opportunities for partial improvements can be found separately on any of the three fronts. The position from which local authorities and their associations engage in a policy dialogue with the central state on deepening the decentralization reforms process would be very much strengthened if local authorities were making the most of whatever space they already have to improve local institutional and individual capacities in local government.

2.4.3 Promoting active citizenship and public-private partnerships

As already hinted several times in this note, the mobilization of locality-specific resources, including social capital, is of essence for genuine local development. The reaching out of local authorities to their communities and to the local private sector to promote civic engagement and public-private partnerships for improved delivery of services and promotion of economic development is indeed a key component, or building block, of a Territorial Approach to Local Development.

Local authorities need then to interact with local societies in a way that goes beyond enabling “participation” in the sense of seeking public inputs in local public policy making and enabling social auditing of the local government’s performance. They must seek and facilitate “active citizenship”, including collective action for the actual co-production of services and engage with private sector in the formulation and implementation of local economic development strategies.

Interest in collective action and co-production of services by users is not new, but devising successful and sustainable arrangements has, predictably, proved difficult because of the natural unwillingness of people to bear the cost of collective action when the benefits are not clearly perceived and/or must be shared with “free-riders”. Also, co-production arrangements are not always applicable or desirable and are more appropriate for the delivery of certain services than for others. But most importantly, their set up requires an in depth understanding and leveraging of contextual conditions. To be effective and sustainable, they need be locally perceived as focused problem-solving arrangements rather than broad forms of organization serving as vehicles of political influence, and they need to carefully leverage already existing institutional capital rather than impose standard organizational arrangements (e.g. user committees and the like) promoted by external funders or by national and local authorities under pressure from external funders.

As highlighted by recent research, successful and sustainable institutions to activate citizens, and mobilize local resources (financial and otherwise) for services delivery and local development, are likely to be those that are “*locally anchored in the double sense of being welfare enhancing/problem-solving in the context and making use of institutional elements inherited from the past*”.⁹ They are a

⁹ David Booth, Towards a theory of local governance and public goods’ provision in sub-Saharan Africa. ODI Working Paper No. 13 Aug, 2010

response to “...a problem to which national policies and leaders are not offering solutions. They have also relied primarily, although, [...] not always exclusively, on mobilizing local resources, and they have most importantly not been driven by the availability of either government or donor funds”.¹⁰

Also interest in public-private partnership is not new, but the leveraging of private sector financial resources and technical expertise for effective public services delivery or local infrastructure investment has often been hampered by the high commercial and political risks prevailing in many developing countries and by the limited capacity of the local authorities to manage complex concessions and other contractual arrangements. The scope of PPP for public services delivery and infrastructure investment could be clearly made much wider in practice if appropriate national and external support was provided to local authorities to reduce perceived risks and address management capacity issues. But the scope of local level public-private partnership could also be broadened by a proactive local authority willing and able to engage the local private sector, beyond the delivery of public goods, in a process of planning, co-financing and implementation of a local economic development strategy. Recent evidence¹¹ shows that even where the local authorities have very limited resources to follow-up and invest (in attracting inward investments, providing infrastructure, supporting local firms and developing local human resources), their engagement with local private and community stakeholders in a process of strategic planning ends up opening new possibilities and enabling new initiatives for local economic development.

2.5 Adapting the TALD policy to diverse country contexts

Different country contexts are bound to determine whether a TALD policy may be adopted or not and, if yes, which components of it may be given priority attention and what specific form this may take.

There are many factors that affect the prospects and modalities of adoption of a TALD policy (or elements of it) and this make particularly difficult, and ultimately not very useful, any attempt to construct a comprehensive typology and fit individual country cases into it. Yet there are two basic dimensions along which a first round of assessment of specific country contexts may proceed:

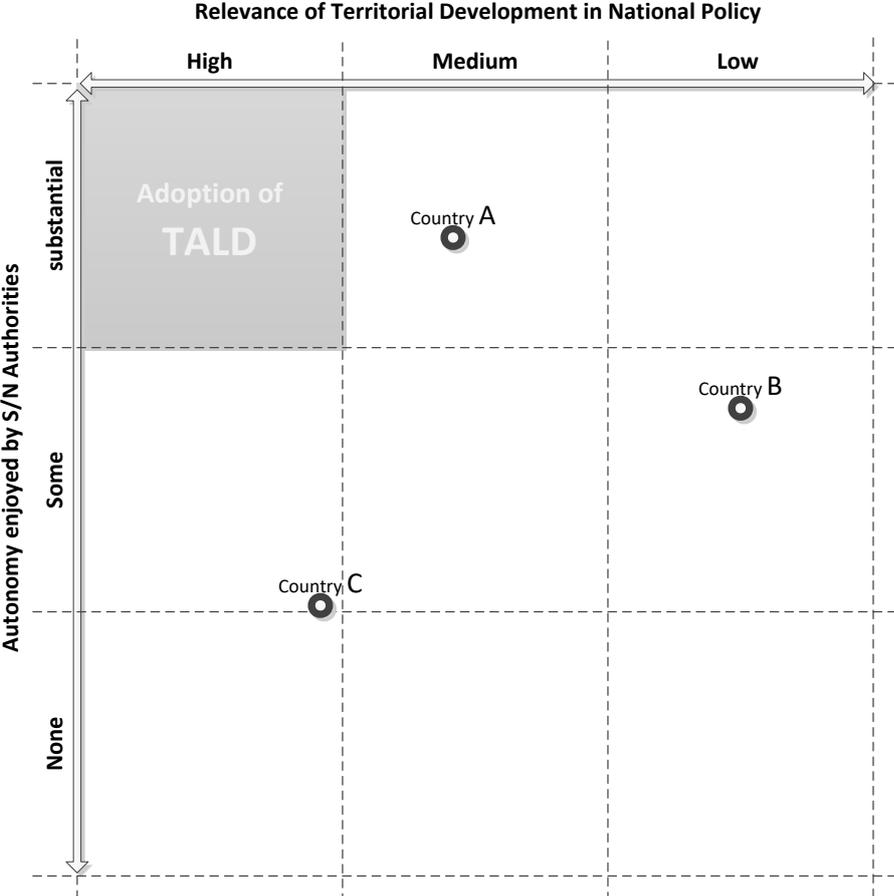
- (i) The importance attached to the spatial diffusion of growth and to sustainable urbanization in national policy discourse, and the role assigned to local authorities in pursuing such objectives; and
- (ii) The degree of decentralization of the national public sector architecture and the level of autonomy enjoyed by local authorities.

¹⁰ Ibidem

¹¹ A. Rodríguez-Pose and E.I. Palavicini-Corona, Does local economic development really work? Assessing LED across Mexican municipalities, Utrecht University, Urban and Regional Research Center (2102) <http://econ.geog.uu.nl/peeg/peeg.html>

Along the first dimension, at one end of the spectrum one would find countries increasingly concerned with territorial imbalances and the social and environmental downside of accelerated urbanization, which they see as obstacles to political stability and/or social cohesion, and ultimately to growth itself. These countries also seek new strategies to cope with territorial imbalances and value local development initiatives by more autonomous local authorities, partnering with local communities and private sector, as a way to both focus and leverage limited central resources. At the other end, one would find countries where as a national policy priority the focus on accelerated, if uneven, growth, trumps any concern with territorial and social imbalances. In between these two extreme, would be countries, which, although committed to the correction of spatial/social inequalities, do not see such inequalities as a potential drag on growth and continue to rely on centralized approaches and more traditional rural/regional development programs (mostly concerned with infrastructure development) to address such inequalities.

Fig. 3



Along the second dimension, at one end of the spectrum one would find more decentralized countries with a system of genuine local authorities (elected councils and local executives and administrations accountable to them), empowered with a meaningful degree of local autonomy and embedded in a network of supportive accountability relations. At the other end one would find strongly centralized countries where no elected councils exist or, if they do, they play at best an advisory role for the deconcentrated state administrations. In between are countries where, at sub-national level, weak local authorities with little formal responsibilities and resources co-exist with deconcentrated agencies of the State which continue to be the main players in promoting “local” development, which is essentially understood as just the *localization of national policies and programs*.

The position that any particular country occupies in the space defined by these two dimensions, determines both the scope and pace of domestic reform and the points of entry in the policy dialogue with development partners supporting territorial development. A few stylized cases may help illustrate this.

Country A has an established municipal system, with local authorities whose autonomy is constitutionally and legally protected and whose potential for a more proactive role in planning and managing local development has been recently strengthened by fiscal transfers for local discretionary spending. However, municipal leaders are heavily conditioned by the demands of national politics and, in their agenda, the immediate political interests of their own party trump the search for more inclusive governance practices and the longer term interests of local communities. Prior to its coming into power, the now dominant party had been supportive of municipal empowerment and instrumental in the legislation of fiscal transfers, but now sees municipal government as the terrain where political oppositions could still exercise power and build a constituency and has therefore been keen to strongly re-centralize political initiative. An explicit attempt has even been made to disempower Municipalities as local political institutions, emphasizing instead the policy-making role of party affiliated local committees. De facto municipalities end up relinquishing their powers of general competence to keep a more managerial identity and limit themselves to the delivery of a few traditional urban services (street cleaning, solid waste management, etc.).

Centrally-initiated national programs, with limited or no role for local authorities in their design and management, are expected to implement a national pro-poor rural development policy which has a highly prominent position in both the national government rhetoric and agenda and which is meant to counter the huge spatial and social imbalances associated with a national economic growth model which remains outward oriented and centred on mega-projects.

In such country, the opportunities to promote a territorial approach to local development may be limited. Engaging the government on decentralization reforms would neither be feasible, nor actually a priority, while policy dialogue on the design and implementation of the national rural development policies may be more promising. Potential domestic champions of the territorial approach to local development will have to be identified. They may operate within selected municipalities or their national associations, or within non-governmental and community based organizations. They may need technical and financial support for both policy advocacy and policy experimentation, whose purpose should be first and foremost to demonstrate the efficiency of delegating to local authorities the implementation of some national programs, both in terms of better targeting of national resources and of mobilization of additional local resources.

Country B has gone through a decentralization reforms process, which, over the last two decades, has created directly and indirectly elected councils at the first and second tiers of the sub-national administration system. The basic legal framework of the local authorities system is in place, and a system of fiscal transfers provides local authorities with a minimum of resources for discretionary spending. But neither specific services delivery functions, nor fiscal powers to generate own-source revenue, have been assigned to local authorities. The local administration of first tier authorities is almost non-existent, and that of second-tier authorities is minimal. Services, if delivered, continue to be the responsibility of deconcentrated agents of the central administration. A national program is however in place to build the capacity of sub-national administrations and create the conditions for transfer of some services delivery functions. Meanwhile resources transferred to local authorities for development spending are almost entirely allocated by local councils to investment in small-scale infrastructure projects.

The country is located in a highly dynamic region and its economy has grown at an accelerated pace in the last decade. Overall poverty incidence has been reduced but remains high in relative terms in rural areas, while it shifted in absolute terms to the capital city where a strong inflow of internal migrants has occurred and where the bulk of the modern productive and services activities are located. National economic policy remains focused on export promotion, the setup of free economic zones and the attraction of foreign direct investments. Concerns with spatial and social inequalities and attention to rural and urban development policies to address them remain low in the national policy agenda.

In such country there may be substantial opportunities to promote a territorial approach to local development. In fact, the national program to implement decentralization reforms provides both domestic reform champions and their international partners with a platform to make national policy and sub-national institutions more supportive of a local authorities' role in promoting local development. The focus should be on consolidating the space already available for local-level autonomous decision making and moving from an exclusive focus on infrastructure building to the local delivery of services. This requires the experimentation and adoption of innovative sub-national governance mechanisms including both co-production arrangements with beneficiary local communities and arrangements with national agencies for contractual delegation of specific services delivery responsibilities.

Country C has only recently initiated a decentralization reform process, which has been limited to the establishment of elected sub-national councils, with a “de jure” role of direction and oversight of the deconcentrated state administration. The latter however is deconcentrated only in name, as its intended “horizontal” integration under the command of a centrally nominated governor remains partial at best while “vertical” lines of accountability to parent Ministries continue to prevail. Ultimately there is little scope for autonomous policy-making by the locally elected Councils, which is currently limited to the programming of relatively minor capital expenditures, with little or no impact on how services are planned, financed and delivered. De facto, Councils operate as advisory boards for the territorial State administration rather than as genuine local authorities.

The country faces a steady decline in revenue from oil exports, and high levels of urban and rural unemployment. The diversification of the economy away from oil, including a revitalization of agriculture and a development of trade and logistic services industry is high on the national policy agenda, and both the history of the country and the fragility of the central State suggest that such diversification will have to rely on local, rather than central, initiatives and resources. In fact the State is extremely weak; its presence and legitimacy at the periphery is minimal and tribal unrest is endemic. Separatist movements have gained strength recently in different parts of the country, and demands for the establishment of a federal system have been made by opposition political forces and civil society.

In such country, both the economic and political rationales of well-managed decentralization reforms are strong and the ongoing debate on a new constitutional foundation of the State has opened windows of opportunity for reform. The challenge for domestic reform champions and international development partners is precisely to help the country simultaneously strengthen the national State and the sub-national authorities. The institutions of inter-governmental consultation and negotiation will need to be developed and national rural and urban development policies will need to be re-designed to recognize and support the critical role that local authorities are called to play for the country's political stability and economic sustainability. Ideally, a medium-term national program for territorial development (which may also attract substantial external funding) should be formulated to support, and turn into a developmental engine, the new sub-national governance and administration system that is bound to emerge from the ongoing constitutional reform process.

3 EXTERNAL AID TO DEVELOPMENT AND ADOPTION OF A TALD

External aid to the in-country adoption and implementation of a territorial approach to local development will necessarily take different forms, based, first and foremost, on country context, policies and priorities, as hinted above, but also on choices of in-country partnerships and aid modalities.

3.1 Selecting effective in-country partnerships

Decentralization is a *State reform* and, as stressed throughout this paper, a territorial approach to local development is a *national* policy. Policy dialogue with, and assistance to, the *central* government agencies that (i) drive the reform of the sub-national governance and administration system or (ii) provide State support and supervision to emerging sub-national authorities, remains the *centerpiece* of any external assistance to countries' efforts to decentralize, improve local governance institutions and deliver local development.

The scope and modalities of such dialogue and assistance depends ultimately on why and how a country initiates and manages the process of sub-national system reform. Experiences from the last three decades of decentralization reforms worldwide suggest that a sustained high level political initiative and a whole-of-government approach to the management of the reforms are critical for success. Leaving or prematurely transferring the process in the hands of a single Ministry (Interior, Local Government, Territorial Administration and the likes) is usually a recipe for decelerating or even freezing the reform process and is often a sign that the momentum for reform is waning. The systemic character of the reforms requires a whole-of-government effort, with active and early support by core ministries like Finance and Planning and a long-term effort by sector agencies to reassign (delegate or devolve) functions, effort that can only be sustained by a strong commitment by the country's leadership and appropriate inter-ministerial coordination.

Careful consideration should be given to these matters when entering into a partnership with central government to support its decentralization initiatives, not only to select appropriate entry points for assistance, but also to leverage the considerable, and often underappreciated, space that major donor agencies (particularly if jointly operating in support of a national program) may have to promote the interaction of multiple central agencies around the decentralization and local development agenda.

However, as it is now well understood, decentralization reforms are driven by politics. They follow an often unpredictable process, with sudden accelerations and equally sudden stops and even reversals. While the scope for improving local governance and promoting local development is necessarily strongly conditioned by the decentralization reforms process, action should not always or necessarily be held hostage of the vagaries of such process. Much can be done at any stage. This may mean to undertake some basic local capacity building work with selected ministries, but also to go beyond the partnership with central government and develop new and different partnerships directly with individual local authorities and, importantly, with their national (and sub-national) associations.

Where there are local authorities and there is any meaningful space, however small, for their autonomous action, work to change attitudes, knowledge and skills, and bring about "developmental" Local Authorities, could and should be undertaken. In particular, external assistance must find ways to work directly with local authorities and their associations to help them embrace what is nothing short of

a change of paradigm. They should help the emergence of more mature, more confident and more responsible local authorities that, while fighting for an enabling decentralization policy environment, do not hide behind the limitations of such environment and proactively embrace their developmental role, making the most of any given situation. Perhaps the best way to capture the required shift is to quote the recent “Freeport Declaration” issued at the conclusion of the 2009 conference of the Commonwealth Local Governments Forum (CLGF) which states that : *“a business un-usual approach, which speaks of confidence, opportunity and innovation rather than helplessness, is needed; a shift towards a ‘developmental’ model, with clear strategic vision and leadership, that focuses on what needs to be done rather than on systems and structures”*¹².

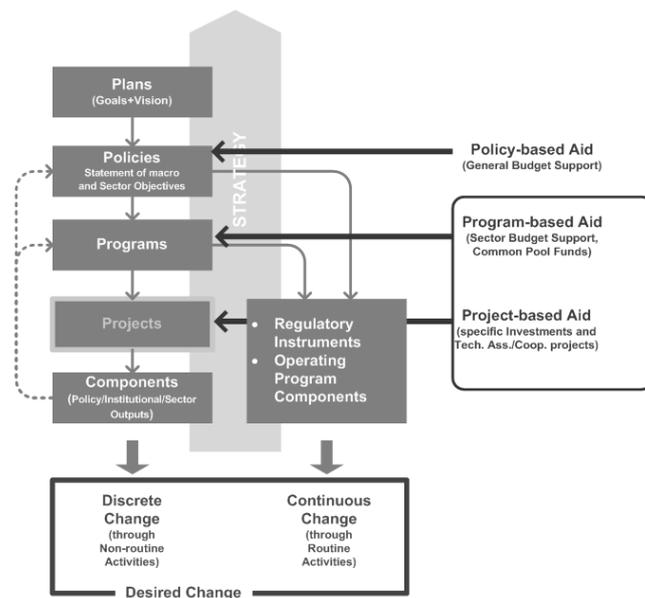
A parallel shift among civil society organizations (CSO) should and could also be supported, and would help tremendously towards the implementation of a territorial approach to local development. What is needed, without compromising their necessary autonomy, is to overcome the often pervasive personal and political incentives of many CSO to undermine the legitimacy of local authorities and adopt conflictive attitudes towards them. Building on the established partnership between the EU and civil society organization (CSO) a new generation of programs could be developed to help CSO and LA join forces and, inter alia, bring about the “active citizenship” practices and the local mobilization of resources that are the trademark of genuine local development as described in this paper.

In summary, it will be the task of an appropriate political economy analysis to determine the extent and modalities of effective engagement with the potential in-country partners for promoting a territorial approach to local development. After three decades of decentralization reforms, however, it’s important to recover the fundamental sense of instrumentality of such reforms for territorial development and consider a more direct engagement of external aid agencies in support of it. This will require that aid agencies’ in-country partnerships expand beyond the all-important one with (i) central administration agencies for design and implementation of decentralization reforms, and increasingly include direct support to (ii) sub-national authorities, (iii) national local authorities associations and (iv) civil society organizations, for improved local governance and local development outcomes.

3.2 Selecting appropriate Aid Modalities

Support to the implementation of a territorial approach to local development as a matter of national policy will require a flexible deployment multiple aid modalities as, in principle, entry points for assistance may be identified at *policy*, *program* and/or *project* level. (See diagram below).

¹² CLGF , The role of Local Government Associations in Promoting Developmental Local Governments (Freeport 2009)



General budget support may be the most appropriate aid modality when the TALD is already a well formed national policy and an integral part of national development plans, so that it can be implemented through the regular operations of the country's national and sub-national public sector. But this is not always, and not even frequently, the case; in fact, most often a specific national *program* must be designed and carried out to both refine and operationalize the territorial approach to local development, after its general adoption as a national policy.

When such programs are developed, external assistance to their implementation is best provided as a combination of sector budget support, basket/pooled funding facilities and specific projects. Indeed, some of the most effective external aid operations in support of decentralization reforms and territorial development have actually taken the shape of *program* (as opposed to *policy* or *project*) support.

Finally, the importance of designing and financing specific *projects* to support the adoption and implementation of a territorial approach to local development can hardly be overemphasized. Projects are particularly appropriate and useful aid modalities under two rather opposite sets of conditions. First when there is a need for specific goods and services for implementation of agreed national policies or programs, and external resources to provide them can only, or more easily, be mobilized as "in kind" contributions (e.g. "turn-key" projects). Second, and most importantly for promotion of the TALD, when there is a need for "policy experimentation" , i.e. for piloting, refining and testing a particular policy or institutional arrangement before adopting it or scaling it up. The latter is almost universally the case in countries considering the adoption of a territorial approach to local development.

