

**LOCAL GOVERNMENT REFORM:  
A RESPONSE TO SOCIETAL CHANGES  
IN JAMAICA**

**A REFERENCE GUIDE**

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## The Economic Development Institute

"The essence of the knowledge is, having it, to apply it; not having it, to confess your ignorance. Ignorance is the night of the mind, but a night without moon or star".

Confucius.

"It is not the degree that makes a great man; it is the man that makes the degree great"

Nicoli Machiavelli.

The Economic Development Institute under the theme **Global Thinking Research** was established in 2001. We are group of past students of the University of the West Indies living in and outside Jamaica. We came to the realization from when we were on the Mona Campus that in the **Information Age** we live in, successful people are those who have access to information. We formed a group to share in this **New Way of Thinking** and found it fruitful to our endeavours . Unfortunately, we had to restrict our information bases in many cases as our lecturers and tutors deemed it fit to remain in a vacuum of limitation with regards to the evolution of the **New Information Paradigm**. We were clearly ahead of our time. We have developed this new product called the **Information Booklet Series (which there is a need for)**, the product provides **information on topical issues** in the areas of Management, Sports, Information Technology, Public Administration, Information and Communication, Economics, Economic Development, Social Development, Legal Education, Industrial Relations at competitive prices. We have kept it simple so that all can understand and appreciate. As such, we do not regard them as theses on the chosen areas and they do not seek academic recognition, however they do meet WIPO (World Intellectual Property Organization) Standards. We hope you will find

the following informative and instructive and as usual your comments would be appreciated.

**Peter W. Jones**

**Executive Director**

# Executive Summary

## Introduction

Civil society has been calling for improvement in Local Government for sometime now, primarily because of the ineffectiveness of the KSAC and Parish Councils island-wide to provide services such as, roads repair and public lighting, amongst others. To a lack of voter participation, however, a government of alleged corruption remains in power. This level of corruption and the continued ineffectiveness of the local government system has increased the need for reform. We developed this **Reference Guide** which we hope will provoke discussion on the burning issue of Local Government Reform and hence the LGRP. The intention of this paper is not to tell the Government or Her Majesty's loyal opposition how to formulate policy but rather to guide the policy discussion. This document should be used as a guide to policy formulation and is not intended as a manifesto or similar type document for any political constituency or political campaign. The paper is divided as follows:

## Historical Background

The political organization of Jamaica is based on a two-tier system of central and local government. The structure of local government is organized along geographical units called parishes. The island is divided into 14 parishes, two of which, Kingston and St. Andrew, were amalgamated in 1923 to create a single unit of local government, the municipality of the Kingston and St. Andrew Corporation (KSAC). A Council elected by universal adult suffrage administers each of these thirteen Local Authorities.

## **Role of Civil society**

Civil society presently poses a paradox for good governance in Jamaica today. On the one hand, there are numerous positive Jamaican qualities that are internationally and regionally recognized such as:

deep national pride and love of country (as has most recently been exhibited in the public support for the Reggae Boyz, the pride shown in Jodie Ann Maxwell's win of an international spelling bee competition, and other events); Unfortunately, it is also true that the Jamaican civil society today is radically different from what it was 20 or 30 or even 10 years ago. Jamaican society is now also characterized by:

widespread poverty; growing disparities between the rich and poor;  
growing unemployment; growing unplanned urbanization;  
growth in consumerist and materialistic values that cannot be sustained in the present economic climate; decline in traditional family values and other civic values; increasing criminal activity; distrust of police and other authority figures, even teachers; increasing domestic violence and other civic violence;  
deep distrust of politicians and apathy toward the political process;  
decline of family life and parental responsibility; decline of community identity and community values; growing gender differences between men and women;  
a growing elderly population accompanied by a lack of respect for the elderly among the youth; disenfranchisement of youth; growing in discipline and lack of respect for human life; declining social leadership; growing fundamentalism in religious, ethnic and class circles; and lack of faith in the economic and justice system.

In the country's efforts to modernize and exercise its sovereign independence, Jamaica has lost many of its previous positive social attributes.

## **The Government's Policy**

In February 1993 the Government initiated the Local Government Reform Programme with the tabling in Parliament of Ministry Paper 8/93.

This Ministry Paper envisioned the attainment of a strong and vibrant local government as being essential to the attainment of a society in which all citizens enjoy real opportunities to fully and directly participate in and contribute to the management and development of local communities. Further, it considered local government and community development as complementary processes to achieve the objective of empowering citizens to exercise greater self-management.

The process of reform since then has led to detailed analyses of the development environment in the country and resulted in a better understanding of the complexity of the issues to be resolved in this fundamental process of governance reform.

## **The Oppositions View (JLP)**

The JLP is committed to strengthening and improving the effectiveness of Local Government through : 1) Improved Delivery of Services 2) Increased Personnel Professionalism 3) A move to a Regional Model

The Jamaica Labour Party proposes to :

1) introduce Legislation to establish four regional councils based on the County structure in Jamaica (Cornwall, Middlesex and Surrey) and the Kingston and St. Andrew Corporation. The new legislation will provide these County Councils with significant authority for regional infrastructure.

2) declare Portmore an official city with the Portmore Municipal Council provided with legislative powers to govern and guide the development of Portmore

3) launch a professional upgrading programme in association with select educational institutions in the areas of customer service and managerial training in order that all council members and officers can improve their ability to execute their duties more effectively . In addition, the amendment of the constitution to define the period for local government elections for every 3 years will be addressed. And additionally

4) seek the amendment of the constitution to define the period for local government elections for every 3 years will be addressed.

### **The Portmore Municipality**

In 1965, a comprehensive plan was designed by Government, under the auspices of the Urban Development Corporation (UDC), for the development of 27,000 acres of low, middle income and upper income housing, schools, medical facilities, churches, light industry and a tourist resort for a community in St. Catherine, which was to become Portmore.

The first phase of the housing solutions, Independence City, a complex of attractive homes, caught the imagination of Kingston residents and set the pace for subsequent growth resulting in the emergence of Edgewater, Braeton, Bridgeport, Waterford and Westchester.

In 1991, Government facilitated investments in Greater Portmore of more than \$7 billion, through the San Jose Accord, the Commonwealth Development

Corporation Fund and the National Housing Trust. This resulted in the construction of more than 14,000 housing solutions and the upgrading of the infrastructure in that area.

Today, more than 160,000 Jamaicans reside in Portmore, making the community the second largest and fastest growing urban centre in Jamaica.

### **Case Studies**

We prepared 5 case studies of countries in the Commonwealth, referred to below. It should be noted that Zimbabwe, Uganda and Kenya were chosen in part because of their higher levels of corruption as documented by **Transparency International's Corruption Perception Index**.

#### Wales(Case Study 1)

The Welsh Assembly Government established a Commission in June 2001 to examine and report on local government electoral arrangements in Wales. The Terms of Reference broadly, consulted widely, and set our investigation in the context of the changing shape of Welsh local government brought about by the recent introduction of new political management arrangements in local authorities. In addition to considering the case for recommending some form of Proportional Representation (PR) for Welsh local government elections, it looked at a range of other matters, including levels of public participation in local elections as demonstrated by turnout and numbers of contested elections; methods of voting; frequency of elections; and councillor numbers.

### Zimbabwe(Case study 2)

For the past 20 years local government in Zimbabwe has undergone significant changes under different National Development Plans. More recently the objectives of local government have been shifting as a result of the government's public sector reform programme. Most of these changes have not achieved the desired results in terms of achieving an improvement of resident's living conditions.

### Kenya( Case Study 3)

In common with many other countries, Kenya has also been reforming its system of local government. The main aim of the reform has been to strengthen the capacity of local authorities (LAs) to deliver services to its residents. The very weak financial position of LAs has been considerably strengthened in the past two or three years as a result of the transfers made through the Local Authority Transfer Fund (LATF). But real and lasting improvements will only happen if LAs involve their residents in decisions about how resources are used, and are accountable to their citizens for those decisions.

### Uganda( Case Study 4)

Uganda has been a leading exponent of decentralisation. Over the past fifteen years, the system of local government has been radically reformed, major responsibilities have been delegated and substantial resources transferred to local councils. Although the reform process has sought to strengthen both citizen participation and local government accountability, there are still significant concerns over these issues. As a result, there are always questions about whether local governments are making good use of the resources at their disposal, and whether the decisions made represent the interests and needs of their residents.

## Australia( Case Study 5)

This study of the development and implementation of local government reform and its implications for labour and management is undertaken in two ways. First we review the relevant literature with a view to highlighting changes in the organisation of work and management of employees and the implications of these changes for service delivery. Second, the discussion focuses on local government reform in Victoria, Australia and in particular in one inner urban local government area.

## Municipal Bond Funding

This section looks at alternate funding for local government through the use of Municipal Bonds.

Against a background of fiscal restraint, governments in developing countries have come to realize that private resources must be mobilized to support the growing demand for infrastructure services. One way is through privatizations and concessions for private provision of infrastructure services that are taking place at a growing pace. Decisions for the provision of these services are also being increasingly decentralized with municipalities playing a growing role in forging partnerships with financiers, operators and constituents. Municipal governments seek to fund capital investments and cover operating costs through local taxes and user charges and, as available, central government transfers. Where essential services that are not provided through private operations cannot be funded by current revenues, the financing gap that emerges would have to be filled through borrowings. In many developing countries, local government borrowings have largely been confined to loans from commercial banks or specialized financial institutions, often with central government guarantees.

This note discusses the conditions underlying the development of municipal credit markets which can provide a vehicle to narrow local government resources gap through debt funding supported by the taxing power of local governments and revenue bonds secured by the earnings of such projects as water facilities and toll roads.

### **Issues for Future Consideration**

In order for the successful implementation of the Local Government Reform Programme(LGRP) the following have to be seriously considered:

- 1) Jamaica's towns and cities have grown rapidly over the past two decades. While the Kingston Metropolitan Area (KMA) dominates Jamaica's urban structure, there is evidence that its dominance is slipping. The growth of the secondary cities and towns such as Montego Bay and Ocho Rios is linked to the recent growth of Jamaica as a mass tourism destination.
- 2) The most serious shortcoming of this rapid urbanization is the capacity of the nation's institutions at both the central and local level to manage this growth effectively. One result is the disparity in the level and quality of service provisions within parishes (urban versus rural) and between parishes. Another is the inadequate maintenance of existing systems. Per capita capital expenditure and maintenance expenditure was lowest in the parishes along the southern belt (Clarendon, Manchester and St. Elizabeth) and included one of the most rapidly urbanizing parishes, St. Catherine.
- 3) In terms of economic characteristics and urban growth trends, Jamaica can be divided into five main regions viz: the tourism north coast belt consisting of the

parishes of St. Ann, Trelawny and St. James; the Kingston Metropolitan Region including the parishes Kingston, St. Andrew and St. Catherine; the southern agricultural/mining parishes of Clarendon, Manchester and St. Elizabeth; the agricultural and tourism influenced parishes of Hanover and Westmoreland; and the agricultural parishes of St. Thomas, St. Mary and Portland.

- . 4) Lack of available capital for needed investment is the major reason for service level disparities and insufficient service coverage. Those parishes with the lowest per capita expenditures are also those parishes with the lowest per capita income (St. Catherine, Clarendon, Manchester and St. Elizabeth).
  
- . 5) Policy, legal and institutional factors also contribute to the above-mentioned problems being experienced by the Parish Councils. One such factor is the lack of integrated planning. There is very little coordination between spatial planning, economic planning and budget allocations. As a result, sector plans are developed for parishes without adequate consideration of the spatial implications of these investment decisions and the capacities of the Parish Councils to respond to these decisions.
  
- . 6) Institutional fragmentation in the land development process has contributed to the isolation of the planning function and its lack of coordination with the work of the infrastructure delivery agencies. This has resulted in wasteful investments as the installation of water mains; sewer mains, electricity and road resurfacing all take place as parallel rather than coordinated activities.

- . 7) The lines of command and responsibility for the provision of services are not clear between central government and local government, particularly among those services, which have been handed back to the local authorities. As a result, funding for these services and enforcement of rules and regulations are not carried out efficiently and effectively.
  
- . 8) The sustainability of infrastructure delivery and the provision of services at the local level depends, to a large extent, on the ability to recover costs, collect fees and implement appropriate levels of fees and charges.
  
- . 9) Improving the capacity within the parishes to plan and manage growth is also important for improved service delivery at the local level. A more integrated outlook of all development efforts taking place within a parish or region will allow for greater coordination of developmental tasks at the local level. Parish Councils must play an increasing role in coordinating development at the local level and ensuring that development meets not only national but local needs.
  
- 10) Although, the Reform Programme speaks to the formation of a District Development Committees for urban areas (DDC) and Community development Committees for rural areas (CDC) in order to give all the people a voice, However, the Reform Programme needs to ensure all CBOs (Citizens associations, Youth Groups, PTA Groups) are registered to ensure no stakeholders are left out.
  
- 11) Although the section on Government and Local Government Reform gives a brief analysis on the problems of funding, perhaps, as suggested in the case studies to have budget community meetings to give input as to how the budget could be best spent in the community, should be given serious consideration.

12) The Role of the City Council/Parish Development Council/Parish Council and its representation, although, seemingly transparent needs to be made clearer so that the people do not get the impression that they are being disenfranchised through bureaucracy.

## **History of Local Government**

The political organization of Jamaica is based on a two-tier system of central and local government. The structure of local government is organized along geographical units called parishes. The island is divided into 14 parishes. Two of which, Kingston and St. Andrew, were amalgamated in 1923 to create a single unit of local government, the municipality of the Kingston and St. Andrew Corporation or the KSAC . Each of these thirteen Local Authorities is administered by a Council elected by universal adult suffrage. The authority of local government and its means of functioning are circumscribed by laws enacted by central government and can be revoked at any time by national legislation. This means that Councils cannot act outside of the law and cannot go beyond the power of the law (the Ultra Vires Principle). The Parish Councils Law, Chapter 271, and the Kingston and St. Andrew Corporation Law, Chapter 192, give legal status to the existence of Councils.

The institution of local government has existed in Jamaica for more than three hundred years, having been established by the British in 1664. The system, which was introduced at that time, was based on the model that then existed in England, and was referred to as the Vestry System. A comprehensive revision of the original

system was carried between 1867 and 1887, and the system that was created then is essentially that which exists to date. The system consisted of 14 Local Authorities which were known as Parochial Boards, and these comprised both elected members and nominated or ex-officio members chosen by the Governor. The elected members were chosen through an electoral system that limited the voting franchise to the land-owning class and those who were literate. Universal adult suffrage was extended to local government in 1947, following the extension of voting franchises to all adult citizens in the new Jamaica Constitution of 1944. Local government elections are expected to take place every three years, excepting in extraordinary circumstances when Parliament may extend the life of the Councils for a specific period. The Mayor of the capital city of a parish is elected by his or her colleagues from among the membership of the Council at the first Council meeting in the life of that Council. The Mayor is also the chairperson of the Council. The Council operates through the Committee System and there are six standing committees, namely:

Finance and Property Management

Building and Town Planning

Road Infrastructure and Civic Amenities

Public Health and Sanitation

## Disaster Preparedness

## Poor Relief

Some Councils may have other committees in addition to the six standing committees. By law, the Council must meet monthly to discuss and take decisions on the business of the Council and reports received from the committees. A Council also meets to make regulations and bylaws that are important for the efficient functioning of the parish.

The global and local economic downturn in the 1980s led to the centralization of a number of service functions hitherto performed by local government, which effectively removed the authority and fiscal base for these services from the Parish Councils. In 1990, a newly elected Government restored to the KSAC and the Parish Councils functions and responsibilities, which were eroded in the 1980s. The new Government also decided to embark on a local government reform programme which is envisaged to bring about far-reaching changes in the management of local government.

The programme is targeted to have the following outcomes:

Local Authorities will enjoy greater autonomy in the management of local affairs.

Local Authorities will act with greater creativity, responsibility and initiative in responding to local opportunities, priorities and needs, within the constraints of available resources.

Citizens will have a direct role in determining the scope and direction of development of their communities, and will have ample scope to exercise their initiative, creativity, talents and leadership skills in dealing with local problems and affairs.

The excessive financial dependence of Local Authorities on Central Government will be reversed, with these Authorities generating 70% to 80% of their total revenue requirements, compared with 10% at present.

All local services will be properly financed, in terms of revenue required to provide the level of services demanded by citizens/clients, through application of the principle of charging full economic fees.

Delivery of local services will be characterized by high quality, cost effectiveness and responsiveness to customer needs.

As indicated earlier, parishes form the unit for local government in Jamaica. Seven western parishes – Hanover, Westmoreland, St. James, St. Elizabeth, Trelawny, Manchester and St. Ann – were created prior to emancipation. The remainder of the island was originally divided into fifteen parishes, but they were too small and were reduced to seven in 1985 as part of the administrative reforms, which

followed the introduction of Crown Colony Government. Vere was merged with Clarendon, St. Dorothy, St. Thomas in the Vale, and St. John with St. Catherine, and Metcalfe with St. Mary. The town of Port Royal and part of St. Andrew were incorporated into Kingston, and the remainder of the parish of Port Royal was added to St. Andrew. St. George and a part of St. Thomas were merged with Portland, and St. David was joined to the remainder of St. Thomas.

Parishes are divided into divisions and in 1998 there were 227 Parish Council Divisions. Divisions were created for electoral purposes in 1947 when universal adult suffrage was extended to local government. Councillors are elected directly through a secret ballot and the laws, which govern these elections, are the same as those governing the national electoral procedures.

There are twenty-five (25) laws, which define the powers and duties of councils in Jamaica. These have been revised from time to time. Some of the major responsibilities of the councils such as Public Health and Poor Relief have separate laws. The breakdown of responsibility in the provision of municipal services between the local authority, central government and public enterprises as it now exists.

In addition to the service functions, local authorities also perform the following regulatory functions:

acting as Local Planning Authorities;

public vending;

licensing of:

places of amusement

meat processing plants

meat, fish and vegetable shops

cold storage plants

hotels, motels and lodging houses

barbers and hairdressers

butchers

inspection of eating places and food handling establishments;

street names and numbering.

## **Civil Society and Local Government in Jamaica**

Global dialogue on “good governance” now suggests that good governance is actually far more critical to the well being of peoples and nations than either natural resources, or culture, or geographical size or location. Current thinking in global discussions also see a markedly different role for the state in this process. In this new vision, the primary function of the government is to “empower its citizens”.

Rather than functioning as the deliverer of economic development, this new thinking sets the appropriate role of the state as one of “facilitator” or catalyst for equitable, economic development that that links the private sector with civil society.

As Spence has described, Jamaica used to enjoy decentralized local government and the present Government of Jamaica, in the early 1990s, made a pledge to once again devolve authority to the parish councils. There is great expectation within civil society and among local authorities for the reform process to support this effort. However, while these objectives may appear to be quite straightforward, the reality is that the current processes of civil society development and the parallel processes of democratic political development and public participation in decision-making are actually out of synch in Jamaica. Although there is a desire to “go back to what we had before”, this report suggests that both the fabric of civil society and the economic realities of Jamaica today, are actually quite different from what existed when the island last enjoyed a more decentralized local government system. The requisite social values, that in the past, supported good governance in local affairs, have been greatly eroded. Jamaica is in fact, experiencing the effects of social fragmentation and decay. Rather than a return to the previous model of local governance, civil society, local government authorities and the private sector, urgently need to create a new vision of local government that is appropriate for the country in this global age.

The return to good governance at the local level has to be accompanied by a parallel and joint process within civil society of rekindling the social values and paradigm shifts that are needed to sustain it, particularly: deep respect for human life; respect for property; strong family values; social discipline; respect for the law and authority; volunteerism and service to community; and good citizenship overall participation in good governance in general; and to discuss some of the specific civic responsibilities of local government vis-à-vis the demand for these services from the various social sectors and too identify the social sectors most in need of local government services.

Through each of the above discussions, the gender implications are also outlined in depth.

Recognizing the present social reality in the country and the need for a new paradigm shift in good governance, the Ministry of Local Government, through the Social Development Commission (SDC), is proposing a new structure for enhancing community development and public participation in local government decision-making. This “integrated community development” approach is proposing to strengthen community-based organizations (CBOs) to form Community Development Committees (CDCs) or alternatively, District Development Committees, in larger urban areas. Representatives from the CDCs and the DDCs will then also sit on a Parish Association of Community Development Committees (PACDCs) together with the representatives from the Parish Council, the Private Sector and various state and non-governmental service providers.

Through this mechanism, the Ministry envisages that it will now be possible to implement “model integrated governance structures” at the Parish level, and begin to design Parish Development Plans that consider the voice of the communities, the parish council, the private sector and service providers, particularly for the purpose of job creation and economic development.

## **Civil Society in Jamaica Today**

Civil society presently poses a paradox for good governance in Jamaica today. On the one hand, there are numerous positive Jamaican qualities that are internationally and regionally recognized such as:

deep national pride and love of country (as has most recently been exhibited in the public support for the Reggae Boyz, the pride shown in Jodie Ann Maxwell’s win of an international spelling bee competition, and other

events);

extraordinary creativity and ingenuity;

pride in independence and individuality;

wide cultural accomplishment in the arts, music and drama; and

tenacity of spirit and courage in the face of extreme adversity.

All of these social attributes are critical for sound nation building. Unfortunately, it is also true that the Jamaican civil society today is radically different from what it was 20 or 30 or even 10 years ago. Jamaican society is now also characterized by:

widespread poverty (approximately 27%);

growing disparities between the rich and poor;

growing unemployment;

growing unplanned urbanization;

growth in consumerist and materialistic values that cannot be sustained in the present economic climate;

decline in traditional family values and other civic values;

increasing criminal activity;

distrust of police and other authority figures, even teachers;

increasing domestic violence and other civic violence;

deep distrust of politicians and apathy toward the political process;

decline of family life and parental responsibility;

decline of community identity and community values;

growing gender differences between men and women;

a growing elderly population accompanied by a lack of respect for the elderly among the youth;

disenfranchisement of youth;

growing in discipline and lack of respect for human life;

declining social leadership;

growing fundamentalism in religious, ethnic and class circles; and  
and lack of faith in the economic and justice system.

In the country's efforts to modernize and exercise its sovereign independence, Jamaica has lost many of its previous positive social attributes. According to Bonnick: *Other countries have modernized in ways that minimized the growth of criminal violence. They managed to preserve in the process, traditional social values and order which have had the effect of moderating aggressive social behaviour. In Jamaica, money has replaced values as the mark of success, and its acquisition by whatever means has become the driving force of the society. Other countries have retained social systems that have eased the driving force of the society. Other countries have retained social security systems that have eased the trauma of the disparity frequently brought about by modernization. Other countries have managed to retain in the process of modernization, strong traditional authority systems.*

The general decline in civility is not only evidenced by growing violence, but is also evidenced by an unwillingness to queue, to obey the rules of the road while driving, and in increased vulgarity and violence in popular music.

The decline in traditional social values has meant that few social checks and balances are now in place to counter act this disturbing trend. In the Jamaican society of 20-30 years ago, people identified much more closely with their communities and all adults took on the responsibility of being authority figures for youth. The saying that "it takes a village to raise a child" was in fact practiced to a large degree.

According to a UNDP report on good governance in the Caribbean region as a whole, the contemporary behaviour of youth is linked to other wider processes in society, particularly the decline of community and family:

*The decline of community is seen to be a by-product of internal and external migration, greater social mobility, the disappearance of institutions that served as poles around which community action took place, lack of participation of fathers, the decline of attendance at church related activities, by young men in particular, the appearance of the “block” or “street corner lime” as an alternative mechanism for transmitting norms as to what values and forms of dress are cool and which are not.*

### **Economic Factors Contributing to the Decline of Civil Society**

According to Anderson and Witter, while poverty may not be the root cause of the present state of civil society today, macro-economic policies, such as the Structural Adjustment Policies (SAPs), have been a large contributing factor:

*At the start of the 1970s, the Jamaican economy was much bigger and more highly differentiated than it was in 1950. Nevertheless, the economy retained the fundamental characteristics of its colonial origins and continued to be highly dependent on demand in its export markets and on supply in its import markets.... (At this same time, however) social structure also became increasingly differentiated. It was the inability of the production system to sustain growing demands and needs of the population with a high consumption-oriented lifestyle that ultimately accounted for the economic crisis of the 1970s.*

Spence has documented the survival strategies exhibited by civil society in the face of growing economic hardships. With limited formal economic opportunities now available to the average Jamaican citizen, there are few structured channels to direct and harness the same creative energy that was once put into positive pursuits. Left undirected and under-utilized, a great deal of Jamaica's creative energy, especially that of its youth, is bent on "bandooloo business" rather than on constructive pursuits. All this is a tremendous waste of Jamaica's remarkable human resources.

### **Structural Adjustment and Good Governance**

Against this backdrop of political dependency, it is a little easier to understand how modernizing economies, such as Jamaica's, have been faced with trade-offs in their ability to promote democracy and public participation. Neither civil society, nor democratic processes, nor government machinery have been able to keep pace with the repercussions of economic modernization.

To some extent, the need to attract foreign investment requires that the State dominate elements of civil society in some instances. For example, Jamaica has recently introduced the military into tourist areas in order to reduce the level of crime against visitors. But such actions are double-edged. In the effort to improve the economic well-being of their constituents (via tourism in this case), states may take actions which threaten to destabilized the society and scare off would-be investors. In so doing, they often unwittingly provoke confrontations that only serve to accelerate the very crises they seek to prevent.

Such crises are often accompanied by a deterioration of democratic governance and an inability to attract foreign investment. At the same time, good governance is often a pre-requisite demanded by international agencies and investors as collateral

conditionally for aid and investment capital.

### **Civil Society, Public Participation and Democratic Development**

It is often assumed that economic growth and development in liberty, participation, stability, and economic equality should all somehow happen together via democratic processes. But the legacy of developing countries, including Jamaica, is that these processes do not all progress together in a synchronized or coherent way, according to Bonnicks:

*The truth is that participation generated by economic and social change might be disorderly or violent. Anthropologists studying village life in Asia, Africa and Latin America voiced fears that modernization should erode the tightly integrated, delicately balanced traditional social organizations and relationships. This line of thought saw rapid social and economic changes as inherently disruptive. The ...crucial issue was the race between the revolution of rising expectations and the capacity of growing economies and changing societies to meet those expectations.*

Four modes of democratic political participation are usually assumed: (1) voting, (2) campaign-related activity, (3) communal activity and (4) individual contacting of political representatives. But this view of political participation assumes an automatic and intimate connection between the concept of participation and concept of democracy without taking into account that critical forms of political participation are also tied to stages of economic development. Without the development of appropriate democratic opportunities for public participation, civil society may express their political views outside of democratic systems and

structures. Political participation outside of democracy may range from civil conversations and orderly voting to riotous rebellion. In Jamaica, civil society appears to have developed many other forms of political influence, including protests, blocking of roads, boycotting of elections, and participation in radio talk shows, among other methods.

Built into this broader definition of individual political participation is a cost-benefit analysis. If people perceive government action as relevant to their interests and believe that they can influence the relevant action, they will participate. This in turn implies that participatory action entails risks and costs, including both inherent demands on time and energy (which vary from one type of activity to another) and costs imposed by the institutional context, such as registration requirements. The act of participation may also entail inherent benefits or rewards, such as satisfying a sense of civic duty or fulfilling personal desires for excitement, recognition or fellowship. Such costs and benefits of the action itself enter into the assessment of whether to take political action and if so, in what form.

But what is also important is the comparison of costs and benefits of participation with alternative possible means of achieving whatever goals, or solving whatever problems, that participation is intended to address. People considering whether to contact the government for help with problems are influenced by whether aid might also be available from family or by preferences for family versus government aid.

Formal democratic political participation therefore depends, in part, on a state's present level of economic development because it is costly. Democracy is costly — both for individuals and for certain social groups. But lack of democratic mechanisms are usually more costly, in the long run.

Two main sets of determinants for individual involvement in democratic political processes are usually at work. These are (1) socio-economic status (SES); and (2)

social centrality. The main factors affecting persons who are most likely to be involved in political decision-making are:

Socio-economic status (SES), which does influence participation, but is weaker than was first thought.

Structured organizational affiliations are more important (such as church affiliations).

Identification with a distinctive social group (ethnic, religious, linguistic, regional) also affects participation. In countries where such cleavages are defined and where parties are linked to them, such groups are likely to be politically active. Where they are not, parties seek to be catchalls of many groups.

Women are less politically participatory than men are. Even women with a strong interest in politics are likely to participate less than men, although they may be more involved in communal participation.

Community size has little impact on voting and campaign activity.

Communal participation is consistently more extensive among rural residents.

Voting, the easiest of participatory acts, turns out to be affected only modestly by socio-economic status and more strongly related to organizational affiliation as is the case of Jamaica.

Participation in campaign activity, generally viewed as more demanding than voting, is associated with socio-economic status (SES) and less with organizational affiliation.

For both voting and campaign activity, being female reduces the likelihood of participation.

Rural residents show a stronger propensity for communal participation than do urban residents.

It is worth noting that one category of problems faced by individuals or groups is more likely than any other to evoke some form of non-democratic political response: problems patently and directly caused by some form of government action, such as the roadblocks and civil disobedience actions that were taken on April 19th and 20th to protest government's unilateral increase in gasoline prices. Squatters faced with destruction of their neighbourhoods, for instance, or market vendors confronted with increased license fees or restrictions on where and when to vend — in all these situations where the government is perceived as the clear source of difficulty, there are few options other than some form of peaceful or violent participation (including bribery or other means of gaining an exception to the government decision).

Political violence is often assumed to be related to economic deprivation, rather than to deprivation of other social values. Yet it is the pace of change and development of institutions that are important. Where institutional democratic development keeps pace with mounting pressures for participation so that these are channeled constructively, increased participation need not spill over into violent forms.

How institutions and procedures come to be widely viewed as legitimate is a question in Jamaica. Civil society is demanding increased participation but is also recognizing that government machinery is inadequate to absorb and respond to the increasing demands of a more vibrant civil society. These issues are discussed next.

### **Development of Government Machinery and Political Processes in Jamaica.**

Global macro-economic processes also have a number of implications for the

development of political structures in small states. Economies of scale limit the size of government machinery and the public sector. Societies that are small are also generally characterized by a limited resource base. The result is that their administrative systems become overloaded and overwhelmed by the demands placed on them and there is also a danger of under-performing as a result. In small states, the role of government is also so multi-faceted and the range of public services is so wide that it results in diseconomies of scale. These diseconomies exist in the high overhead economic costs of maintaining the administrative system of some programmes and in the use of material and/or human resources. One response to this problem has been the creation of multifunction ministries as departments which place responsibility for the administration of several areas of public policy under one minister.

According to Stone, in the early years leading up to independence, both the PNP and the JLP were relatively decentralized with local political personalities being able to make decisions in their local areas and national party leaders respecting their autonomy. However, the pursuit of modernization economic policies meant that management of public policy eventually involved management of huge public sector expenditures. And, as a result, according to Stone, a patronage or clientelistic system developed whereby party leaders catered to the needs of hard-core party supporters through state patronage (jobs, contracts, benefits, favors, houses, and so forth).

What has therefore evolved is welfare patronage politics based on the use of state power to allocate benefits to the party faithful which in turn is viewed as corruption. A major factor recently influencing this new negative attitude towards political leaders has been public exposure of instances of corruption. One very recent and clear example is found in the March 12th, 1999 issue of *The Gleaner*

which reported that the St. Mary Parish Council had contracted a man who had been dead for more than 10 years to conduct some Christmas roadwork.

The members of parliament and local government councillors are the main channels through which these scarce benefits are made available on a constituency basis but there is usually a considerable level of local community leadership pressure and inputs into these decisions as to who gets what. Benefits available in any constituency are seen as the exclusive preserve of party faithful in that geographical area and norms governing their allocation do not permit party faithful from other areas to receive those benefits. According to Stone, there are usually more needs to be taken care of than scarce benefits available and some of the local community leaders often try to channel a disproportionate share of these opportunities for their own benefits.

With increasing economic debt in the 1980s and 1990s, the traditional basis of mass support of the major parties meant that political leaders could not easily abandon their expected welfare responsibilities, nor their patronage networks. From the inception of the independence movement, it had been assumed that the State was to be a vehicle for addressing the inequities in the social system and for promoting economic development of a kind that would benefit the mass of the population.

At the present time, however, there is now a crisis of credibility in the party system as cynicism towards political leaders has increased. The ability of government spending can no longer satisfy the needs of citizens for roads, health services, education, water supplies, and so forth.

## **Government and Local Government Reform**

Ministry Paper 8/93, 7/03 outlines in brief the Peoples National Party policy on the Local Government Reform Programme:

## **MINISTRY OF LOCAL GOVERNMENT, COMMUNITY DEVELOPMENT AND SPORT**

**FEBRUARY, 1993**

### **1. BACKGROUND**

The MINISTRY PAPER seeks to inform the Honourable House of policies being pursued by the Government in respect to its commitment to create a strong, viable and effective system of Local Government which will deepen the democratic process and facilitate the empowerment of citizens by enabling them to participate more fully and directly in the process of governance and in the management of their own affairs. The need for fundamental reform of Local Government in Jamaica has been on the national agenda for the last 50 years, during which period 7 major Studies have been conducted on the subject. Reports on these Studies have been remarkably unanimous in finding that the major contributors to the deficiencies and poor performance of Local Government have been inadequate financing and lack of autonomy. Their recommendations have been consistent in emphasizing the need to provide Local Authorities with adequate and independent sources of revenue and to grant them greater autonomy in the management of local affairs.

Few of these recommendations have been accepted and/or implemented. Rather, the situation of Local Government has deteriorated over the years, both in respect to financing and autonomy. This negative trend is vividly illustrated by the following comparisons:

## COMPARISON 1

In the 1960s Local Government derived 75% of its revenue from local rates and property taxes, and all Councils operated a budget surplus. Today 90% of the revenue required to fund local services comes from Central Government, most of this as deficit grants.

## COMPARISON 2

Here we compare the movement in the costs of providing the 3 major local services against revenue generated from local rates and property taxes.

<b>YEAR</b>	<b>COST OF SERVICES</b>	<b>COST OF SERVICES</b>	<b>RATES &amp;/OR P/TAXES AS A % OF REVENUE</b>
1965 *	\$1,500,000	\$3,000,000	50%
1979 *	15,000,000	14,000,000	107%
1992	379,000,000	73,000,000	520%

These dramatic shifts in the sources of revenue and the relationship between revenue and expenditure coincided with a number of major changes in the arrangements for the financing of Local Government. Among these were:

1. Local Rates and/or Property Taxes, previously paid directly to the Local Authorities, are now paid to Central Government and the Authorities are given a grant in lieu of these taxes.

2. Local Rates, covering costs of street lights, fire protection and sanitation, were abolished and rolled into property tax.

A major flaw of the current arrangements for financing Local Government is that it has served to disconnect revenue from expenditure. This has led to a gross neglect of traditional Local Government revenue sources and consequently to an excessive and growing dependence on Central Government to make up the shortfall, from non-Local Government tax sources.

**N.B. \* The 1965 & 1979 figures are for KSAC only, while the 1992 figures are for the whole island.**

## **2. OBJECTIVES OF THE REFORM PROGRAMME**

### **STATEMENT OF GOVERNMENT'S POLICY ON LOCAL GOVERNMENT**

Government's policy on Local Government is based on the conviction that despite shortcomings of the existing system, a strong and vibrant system of Local Government is essential to the attainment of a society in which all citizens enjoy real opportunities to fully and directly participate in and contribute to the management and development of their local communities, and by extension, of the nation. Such a society is desirable not only as the best means of safeguarding and deepening our democracy, and promoting equal rights and social justice, but also as a frame-work for releasing the creativity, initiative and talents of the total

Jamaican people and channeling these towards the solution of local problems as well as those of the nation as a whole.

Consequently, the answer to dis-satisfaction with the past performance of Local Government cannot be to dismantle or down-grade the institution, but to identify the causes for such non-performance and devising appropriate solutions to those problems. This basically is the Policy of the present Government, and the Local Government Reform Programme is designed to achieve that objective.

Additionally, the Government perceives both Local Government and Community Development as being complementary processes by means of which it can achieve its focal objective of empowering citizens to enjoy greater self-management over their own affairs and take initiatives towards, and responsibility for, determining and solving their own problems. A major focus of Government's policy is therefore to deepen the integration between these two processes.

The specific objectives of the Reform Programme are:

1. Restoration of functions and responsibilities which were removed from Local Government, and rehabilitation of the Councils.
2. Establishment of new arrangements for the financing of Local Government which will allocate to them adequate and independent sources of revenue, and will give Local Authorities effective control over these sources of revenue.
3. To up-grade the institutional capability of Local Authorities to ensure that they are able to perform their functions in an efficient and cost-effective manner, and are enabled to take on the new challenge of providing leadership and coordination in the process of community development and empowerment.

4. To effect a comprehensive revision of all out-dated legislation which presently constitute a major constraint to the effective performance of the Councils.
5. To up-grade the quality and cost-efficiency of all Local Government services and regulatory functions.
6. To shift the focus of Local Authorities to one of providing leadership and a coordinating framework to the collective efforts of the people of their respective Parishes, towards local development.
7. To examine the present distribution of service responsibilities between Central and Local Government, community organizations, NGOs and the private sector, and to identify better or more cost-effective arrangements for the delivery of these services.

### **3. FINANCIAL REFORM**

All previous and current studies of the problems of Local Government have concluded that without financial reform, all other efforts to deal with those problems will prove futile. The Government has therefore chosen this as the priority area of the Reform Programme, and in keeping with the Five Year Development Plan for Local Government, this Ministry has been pursuing a multi-phased Programme to improve the financial base of Local Authorities. This Programme consists of the following phases:

- **Phase 1** entails the revision of existing licence fees and user charges payable to Local Authorities, and imposing fees where services and regulatory functions are now being provided free.

- **Phase 2** focuses on improvement of the revenue collection machinery and increasing the effectiveness of enforcement measures.
- **Phase 3** aims at giving the Local Authorities greater control over the sources of revenue allocated to them, and simplifying the procedures for setting and amending fees.
- **Phase 4** consists of measures to upgrade the financial management capability of the Councils, particularly in respect to improved asset management and better utilization of the many assets which most Councils possess but which are now grossly under-utilized.
- **Phase 5** entails the development of a comprehensive new formula for financing Local Government, which will finally solve the chronic financial problems of this institution. The new formula which will now be applied consists of the following as the sources of revenue allocated to Local Government:
  - Property taxes and/or specific local rates for services such as Public Cleansing, Street Lighting and Protection of Property.
  - Motor Vehicle Licence fees, to be used for maintenance of roads
  - Fees for Spirit Licences and other amusement activities.
  - Fees for Trade and Business licences and other forms of activities which require licensing or permits, e.g. building permits.
  - User fees in respect to other services, e.g. Markets, etc.
  - Income generated from parochial assets and investments.

In addition Local Authorities will be permitted to:

- Raise Loans and Local Bonds to finance economically feasible development projects for the Parish or specific communities, and also to finance capital works for self-financing services.
- Introduce Special Development rates, raised with the consent of the citizens concerned, to service local development loans or bonds, or to otherwise finance special needs or development projects for the Parish, or specific communities within it.
- Retain proceeds from fines and other penalties resulting from breaches of regulations administered by the Councils.

Local Authorities will continue to receive grants or contributions from Central Government, but this will be confined to:

- Grants in lieu of taxes for Government owned property.
- Specific Grants in respect to social/welfare services such as Poor Relief, Minor Water Supplies, Indigent Housing, etc.
- Support for traditional Central Government functions, such as youth and community development Programmes, child care, emergency relief, disaster preparedness and mitigation, etc.

### **SPECIAL FEATURES OF NEW FINANCING FORMULA**

Some special features of the new financing formula are:

1. The principle to be applied in respect to the rates, fees and user charges to be levied under the formula is that these will reflect the full cost of the service to which they relate.
2. Local Authorities will be given full control over the setting of these rates , fees and charges, and will be made responsible for maintaining the relationship between revenue and costs.
3. It is intended that wherever possible rates will be charged for specific services and separated from basic property taxes. Revenue from these rates will be applied to the respective services. For example, revenue collected in respect to m/v licences will be applied exclusively to the maintenance of parochial roads.
4. 10% of Property Tax collected by the Parish is to be made available to properly constituted community organizations to be used for community determined development projects or activities.

#### **4. REHABILITATION OF LOCAL AUTHORITIES**

Rehabilitation and transformation of Parish Councils and the KSAC is a critical objective of the Government's Reform Programme. This is necessary not only to reverse the recent decline of the Councils and correct long-standing deficiencies in respect to their performance, but also to prepare them to undertake the challenges of the new role which they will now be expected to play in providing effective and dynamic leadership to the community development process, and in local planning and development generally.

In pursuing Government's policy of encouraging and facilitating local initiative and empowerment of local communities and citizens, Parish Councils will be expected to provide the coordinating framework and leadership which will bring together all

elements of the local community, with technical support agencies, in a process of integrated community development which will eliminate much of the waste and inefficiencies which presently occur. To effectively fulfill their new mandate, the Councils will need to be up-graded and transformed in a number of ways, including the following:

1. To shift their focus from being primarily a provider of local services to being the chief coordinator and facilitator of local initiatives to develop the Parish and satisfy local needs.
2. Enhance the planning and policy making capacity of the Councils.
3. Revise the organizational structure and determine the staffing needs of the Councils, based on their new role and functions.
4. Improve management systems and overall management capability of the Councils, particularly in respect to financial management.
5. Establish closer and more effective working relationships and interfacing between the Councils and other agencies of the Ministry/Government operating within the Parishes.
6. Remove inequities which presently make employment with Parish Councils very unattractive. Measures required include creation of a fully Unified Local Government Service and establishment of full parity between Central and Local Government employees .

## 5. IMPLEMENTATION OF POLICY MEASURES

The following represent the implementation status of the policy measures and objectives set out above:

### 1) **RESTORATION OF FUNCTIONS AND RESPONSIBILITIES.**

Most functions which were removed from Local Authorities, including Parochial Roads, Minor Water Supplies, Public Cleansing, Poor Relief and Building and Town Planning, have been returned.

### 2) **FINANCIAL REFORM.**

- Under Phase 1 most existing fees have been increased, including fees for building and sub-division applications, abattoirs cemeteries etc., resulting in significant increase in revenue.

S Acting in association with the GCT Office, Inland Revenue Department and other agencies, MLGY&CD have initiated steps to improve the revenue collection machinery, particularly in respect to broadening the tax base by tracking down delinquent licensees, and expediting the remittance of revenue collections to the Councils. These measures should result in significant improvement in the revenue flows to Local Authorities in 1993/94.

- The new formula for the financing of Local Government will come into effect in the financial year 1993/94. However, full implementation of the policy will be phased over a two year period to allow for adjustments and to sort out teething problems.

S The following Acts will be amended to give Local Authorities autonomy in setting fees and user charges, subject only to the requirement that they give 30 days notice to the Minister and citizens likely to be affected, of their intention to adjust such fees and charges. The Acts involved are:

- a) The K.S.A.C. Act.
- b) the Parish Councils Act
- c) The Parochial Markets Act
- d) The Pound Act
- e) The KSAC Building Act
- f) The Public Health Act
- g) The Parish Councils Building Act
- h) The Public Cemeteries Management and Regulation Act
- i) The KSAC Cemeteries Act
- j) The Parochial Rates and Finance Act

Bills to amend the Acts listed above will be tabled in this House before the end of the legislative year, and will include provisions to simplify the procedures for adjusting fees, and to increase penalties under these Acts.

#### 4) **INSTITUTIONAL UP-GRADING OF PARISH COUNCILS AND THE K.S.A.C.**

- Councillors and Senior Managers have already been exposed to a special training Programme, developed in association with the University of the West Indies. This Programme is being further developed and expanded.

S The principle of parity between comparable Central and Local Government staff has been accepted and is being implemented.

- Legislation to amalgamate the Municipal and Parish Councils Services Commissions and create a Unified Service for all Local Government employees have been approved by Cabinet and is now with the Chief Parliamentary Counsel.

S A comprehensive review of the organizational structure and staffing requirements of the Councils is being undertaken.

### 5) **REVISION OF LAWS AND REGULATIONS**

Revision of numerous Laws and Regulations relating to Local Government have been completed or are in progress. In addition to those already mentioned, such legislation include the following:

S Building By-laws for the KSAC and Parish Councils were amended to increase fees, extend the building limits to cover the entire Parish and impose new procedures for change of use applications.

S New Cemetery Regulations have been enacted for all Parish Councils, imposing a new fee structure and providing for more effective management of all public cemeteries.

- Cabinet has approved amendment of the Spirit Licences Act to remove bottlenecks which inhibit the granting of spirit licences and hence collection of related fees. Revision will include removing restrictions on the number of licensing sessions per year, allowing lay magistrates to be appointed to chair the Licensing Authorities and increasing penalties for non-compliance.

S Amendment of the Licences on Trades and Businesses Act to broaden the range of business and trade activities falling under the Act, and to rationalize the fee structure, is being prepared.

- A new Buildings Act to amalgamate and replace the KSAC and the Parish Councils Building Acts is presently being prepared.

S A new Act to amalgamate and replace the exiting Town and Country Planning and Local Improvements Acts, and enhance the functions of the Councils as the Local Planning Authorities, is presently being drafted.

#### 6) **SERVICE STANDARDS AND QUALITY**

Some success have been achieved in efforts to improve the quality of services. E.G. the entire back-log of 480 building applications in-herited by the KSAC in April, 1992 when it was reinstated as the Building Authority for the Corporate Area have since been cleared, and all new applications are now being processed within 6 weeks. However, full benefits of such measures will not be realized until adequate financing of all services is achieved.

#### 7) **CHANGE IN FOCAL ROLE OF LOCAL AUTHORITIES**

Merger of the Ministries of Local Government and Youth and Community Development creates the opportunity to strengthen links between Local Authorities and their constituent communities, and involve them more closely in the community development process. This opportunity to forge greater integration between the Parish Councils and other agencies operating at the parish level, such as the SDC, 4H Clubs, MIDA, Children Services and the Vocational Training Centres, is being vigorously pursued.

Additionally, the new financial arrangements under which bona fide community organizations may receive a percent of property tax collections to fund community initiatives or activities, should provide a tremendous stimulus and opportunities for such communities to become directly involved in service delivery and to take the initiative to determine and satisfy their own needs.

## **6. PUBLIC PARTICIPATION IN THE REFORM PROCESS**

The focal objective of the Local Government Reform Programme is to create a decentralized, democratically controlled system of local administration which will facilitate maximum participation by all elements of the local community in the management of local affairs and taking the initiative to solve local problems. This can only be achieved if there is the widest public participation in the reform process itself, to ensure that the new structure of Local Government which emerges represents the consensus of the Jamaican people. This is important, not only as a means of ensuring that the new structure reflects the needs and perspectives of the people it is intended to serve, but to safeguard against whimsical changes in the future.

A major challenge to the process of Local Government Reform is to devise means for applying the concept of direct community participation in the development and administration of communities to the situation of fast-growing, major new urban centres such Portmore and Ocho Rios, so that local residents can be fully and directly involved in these processes. This will entail the creation of new Town Management structures which will facilitate such participation. Realization of this objective, in a manner which will take into account all relevant points-of-view and interests will, however, be best achieved through a process of national and local dialogue, supplemented by further studies and pilot projects.

The Reform measures outlined above must therefore be seen as being Phase 1 of the reform process, in which a basic framework of the new system of Local Government is established. Phase 2 will include a massive public education campaign, aimed at ensuring that there is broad public understanding of the role, functions and structure of Local Government, and of ways in which this institution can be made to be responsive to the needs and expectations of the average citizen. This will be accompanied by a broad Public Dialogue in which it is hoped that all elements in the society will be able to participate and contribute towards defining the final shape of the new Local Government system.

This will therefore be a major focus of the Reform Process in 1993/94

In February 1993 the Government initiated the Local Government Reform Programme with the tabling in Parliament of Ministry Paper 8/93.

This Ministry Paper envisioned the attainment of a strong and vibrant Local Government as being essential to the attainment of a society in which all citizens enjoy real opportunities to fully and directly participate in and contribute to the management and development of local communities. Further, it considered Local Government and Community Development as complementary processes to achieve the objective of empowering citizens to exercise greater self-management.

The process of reform since then has led to detailed analyses of the development environment in the country and resulted in a better understanding of the complexity of the issues to be resolved in this fundamental process of governance reform.

The present development landscape reflects the existence of 745 communities. These can be grouped into approximately 72 distinct clusters of communities based on mutual dependency and linkage that we refer to as Development Areas. These features are present across the 14 parishes and summarized in the following table.

Description	Municipal Management Areas	Development Areas	Communities
Kingston & St Andrew	1	13	82
St Thomas	3	3	51
Manchester	3	9	82
Clarendon	3	3	73
St Elizabeth	3	6	58
Westmoreland	3	5	69
Hanover	-	3	41
St James	1	3	85
Trelawny	-	3	38
St Ann	-	9	48
St Mary	-	5	30
Portland	3	6	40
St Catherine	1	4	48
Totals		72	745

The discussions taking place in the Local Authorities have focused on how these 72 Development Areas could be better managed.

Many Parish Councils have begun to address these issues and have come up with preliminary thinking on options to provide resolutions.

The issue is how can we reform the existing structures to be able to respond to this reality. How do we produce a system of municipal management in keeping with the underlying development fundamentals while incorporating the rights of the citizens to participate in the process in keeping with the Vision?

## **ACHIEVEMENTS OF THE REFORM PROCESS TO DATE**

### **Financial Autonomy**

Following the establishment of the Parochial Revenue Fund, the measures directed at achieving financial autonomy have been two-fold. These are:

- Improving the revenue flows to the Parochial Revenue Fund (PRF)
- Maximizing the revenues controlled by the Councils i.e. General Revenues and Commercial Services

### **Improvement of Revenue Flows - PRF**

The emphasis for revenue increases for the Parochial Revenue Fund has been concentrated on Property Taxes. With the agreement of the Inland Revenue Department, the Ministry of Local Government and the Local Authorities have been integrally involved in the printing and distribution of the Assessment Notices, updating and maintenance of the accounting records and improvement in compliance measures. This has consequently led to the Property Tax collections moving from \$475.9 M in 1998/99 to a record of \$645.0 M in 2001/2002 on the tax base, an increase of over \$170.0 M in three years.

### **Maximizing Own Source Revenues**

The Local Authorities have direct responsibility for their General Revenues (user fees and charges) as well as those derived from their Commercial Services. In order to meaningfully improve these revenues, the user fees and charges were examined and adjustments made in the rates charged. The revenues moved from approximately \$80.0 M in 1997/1998 to \$131.7 M in 2002/2002. Additionally, professionals were contracted by the Local Authorities to manage their commercial portfolios (Commercial Services Managers). This has led to revenues increasing from \$10.5 M in 1998/1999 to over \$124.0 M in 2001/2002.

Although over the period 1998 - 2002 there were significant increases in revenues, they are still not sufficient to provide the services for which they are required. Other initiatives currently being explored include a Revenue Survey to objectively determine the existing revenue base for each Local Authority, as well as the contracting of an international Consultant to advise on municipal taxation and other sustainable financing measures for the Parish Councils and the KSAC.

### **Parish Infrastructure Development Programme (PIDP)**

As part of the strategy of advancing the Reform Agenda, the Government of Jamaica (GOJ) in collaboration with the Inter-American Development Bank (IDB) is implementing a five (5) year Parish Infrastructure Development Programme (PIDP) at a cost of US \$50.0M.

This Programme is intended to finance inter-alia, rehabilitation of parish infrastructure (parochial roads, markets, administrative buildings, minor water supplies) as well as institutional strengthening and capacity building of the Local Authorities.

The following is a summary of the PIDP's achievements:

□ 195 km of parochial roads throughout the Island are scheduled for rehabilitation under the Project at a cost of US\$1.0 M. To date 91 km have been repaired in various parishes island-wide. 40 km are currently in progress.

□ 19 markets are scheduled for refurbishing. The Browns Town Market is partially completed. Designs have been undertaken for Spanish Town and Ocho Rios.

□ All 13 Parish Council administrative buildings are scheduled for refurbishing. So far 3 buildings have been refurbished (KSAC, Hanover and St. James) with Manchester now underway.

□ 13 Pickups have been provided for parish infrastructure maintenance.

□ 400 computers were installed in Local Authorities island-wide.

□ 405 staff members from the Local Authorities and the Ministry have been provided with computer training.

□ A contract for a Local Area Network for the Local Authorities has been awarded. Installation begins this month, February 2003.

□ Funding of Property Revaluation Project was completed by the National Land Agency.

A Task Force to expedite implementation of the Organizational Strengthening component of the Programme is currently being established and is anticipated to complete its work within the next two (2) years.

### **Legislative Improvement**

The process seeks to effect a comprehensive revision of all outdated legislation that presently constitute a major constraint to the effective performance of Councils. The Local Government system has in excess of 100 statutes and regulations. Of this number, 29 have been identified for immediate amendment. Work on legislative amendments has started on 21 of the 29 pieces of legislation.

### **Establishment of a Participatory Mechanism**

Parish Development Committees (PDCs) have been established in all parishes with the aim of promoting local development through partnership of the Local Authorities with other state agencies (e.g. PIOJ and NEPA), the private sector, civil society, national utility service providers and community based organizations.

The aim of this initiative is the promotion of participatory local governance. PDCs will encourage, among other things, the preparation of long-term strategic plans for their respective parishes, enhancement of business competitiveness, and economic development for job creation. An example of this is the *KSA/PDC Cities Alliance Project*. Here the KSAC, in collaboration with the Kingston & St. Andrew PDC obtained a grant of US\$256,000 from the World Bank to prepare a sustainable development plan for the parishes of Kingston & St. Andrew. This plan is to set the framework for the implementation of sustainable development programmes that promote orderly development, economic growth and environmental management.

### **Establishment of City Councils**

The St. Catherine and St. James Parish Councils were instrumental in the establishment of the Portmore and Montego Bay City Councils respectively. These have been established as Standing Committees of the respective Councils. The Portmore City Council is the more advanced of the two, in so far as it has been able to put forward concrete proposals for the granting of municipal status to that area.

There has also been the formation of Town Councils and Area Committees as Standing Committees of the Parish Council to manage the three (3) Development Areas in St. Thomas.

### **Improvement in Land Development Application Processing System**

In fulfilling the Government's commitment to improve the land development application processing system and in particular to achieve a 90-day turn around processing time for all applications, the following measures have been put in place.

1. **Computerized Applications Tracking System** to ensure that applications can be tracked wherever they are within the processing cycle.
2. **Universal Numbering System** to be used by all agencies involved in the application processing system.
3. **Database Management System**

This work, extensive discussions and significant achievements since Ministry Paper # 8/93 have provided the bases on which these current proposals and action programme are formulated.

### **Current Local Government Reform Proposals 2003**

The Vision is the creation and establishment of a new framework of governance for the management of the modern Jamaican society, with the following features:

- Participatory:** it will create the space for our citizens to become involved in the affairs of their communities as a right, thereby establishing a firm and transparent basis upon which our societal arrangements may be made to flourish.
- Autonomy:** there would be a clear defining line between the roles of Central Government and Local Government.
- Accountability:** the citizens themselves would constitute a monitoring mechanism to ensure efficiency in the use of financial and other resources that are available to address the economic and social development of specific localities.
- Developmental:** it will facilitate a process of development that makes for the creation of wealth and the reduction of poverty.

□ **Empowerment:** it will empower citizens and communities to take responsibility for the management of their economic, health, educational, cultural and recreational needs.

## **The Policy Objective**

The objective of the policy is the implementation of mechanisms to ensure the effective delivery of service to the citizens of the communities on a financially sustainable basis with the active involvement and participation of the citizens in keeping with the Vision.

## **The Policy Provisions**

This Ministry Paper proposes five (5) policy provisions:

1. Requires the Local Authority to create municipal management mechanisms to provide more effective management for discrete urban and rural areas (Development Areas) that have emerged over time within parishes across the country. These mechanisms would reflect, but not be limited to, one of the following forms and would be established based on the approval of the respective Local Authority.

### **1.1. Municipal Status**

- 1.1.1. Municipality conferred by way of amendment to the Parish Councils Act to give the Minister authority to approve the establishment of a municipal corporation for a specifically designated area, subject to affirmative resolution in Parliament.

- 1.1.2. The Minister would act on a petition from the citizens of the area that has been endorsed by the Local Authority.

1.1.3. The instrument effecting the establishment would be a Municipal Charter, which would contain the rights, powers, duties and rules regarding the composition and operations of the municipality.

1.1.4. The Municipality would be governed by a Municipal Council which shall be composed of the following:

1.1.4.1. A Mayor, who shall be directly elected from the eligible voters who appear on the list of registered voters of all polling divisions, which fall within the approved boundaries of the Municipality. The Mayor shall not represent any individual electoral division

1.1.4.2. A Deputy Mayor, who shall be elected from among and by the Councillors who comprise the Municipal Council

1.1.4.3. The Mayor and Councillors shall be registered voters who are eligible to vote in the Municipality

## **1.2. Town and Area Councils**

1.2.1. Establishment of Standing Committees of the Councils by way of resolution [As Per City Council Procedure]

## **1.3. Business Improvement Districts**

1.3.1. Establishment of structures to manage Business Improvement Districts and designated Special Improvement Districts (SIDs)

2. Specific definition and rationalization of the roles and functions of Central Government and Local Government. This includes the establishment of clear rules of engagement and coordination between the two.

3. The establishment of dedicated financial resources to support the work of the Local Authorities. This will include the specific commitment of Central Government and the conditions that would trigger that support

### **3.1. Dedicated Resource Base**

3.1.1. Property Taxes

3.1.2. Motor Vehicle Licence Fees

3.1.3. Local Rates

3.1.4. Trade and Spirit Licence Fees

3.1.5. Building and Sub Division Approval Fees

3.1.6. Fees from other regulatory functions

3.1.7. Municipal Bonds

3.2. **Central Government grant mechanisms-** Example: Capital Grant for Public Cleansing, Fire Brigade, Welfare related grants etc.

4. All the management mechanisms must create space for the participation and representation of Civil Society on all Local Government structures

4.1. Parish Development Committees

4.2. Community Development Committees

5. To initiate national discussions in order to determine whether the existing thirteen (13) Local Authorities should be rationalized or consolidated in response to the proposed new municipal structures and also in order to achieve economies of scale and greater efficiency.

### **Operational Plan**

1. Within twelve (12) months, all Local Authorities will be required to develop a Reform Plan in accordance with the new policy guidelines. If this Plan is not forthcoming from the Local Authority, at the expiration of the agreed time period, the Ministry of Local Government, Community Development & Sport reserves the right to intervene to establish such a Plan.

2. Implement a pilot project of the municipality in Portmore in 2003

3. Establish appropriate Civil Society mechanisms, inclusive of Parish Development Committees, Community Development Committees in the financial year 2003/4

4. Restructure the Ministry of Local Government, Community Development & Sport, within the financial year 2003/4, to:
  - a. Coordinate the Local Government Reform Process island-wide
    - i. Reconstitution of the Local Government Reform Unit within the Ministry
    - ii. Re-establishment of a National Advisory Council on Local Government Reform
  - b. Facilitate island-wide consultations on the reforms, specifically the number of Local Government jurisdictions and their roles and functions.
  - c. Facilitate the definition of the roles and functions to be carried out within the sphere of Local Government.
  - d. Facilitate the Capacity Development of Local Authorities
    - i. Refocus the Parish Infrastructure Development Programme [PIDP] to ensure that the infrastructure projects help to support the capacity development of Local Authorities and the Civil Society processes.
  - e. Facilitate the process to establish agreement with the Ministry of Finance on the financial framework to support the Local Government System
5. The Ministry of Local Government, Community Development & Sport, will evaluate this programme annually and the policy reviewed at the end of three (3) years.

## **The Opposition( Jamaica Labour Party) and Local Government**

Due to the global and local economic downturn in the 1980s, the Then Jamaica Labour Party Government was forced to centralize a number of service functions

hitherto performed by local government, which effectively removed the authority and fiscal base for these services from the Parish Councils. The Peoples National Party and its apologists has used this against the JLP for years but the JLP action with regards to Local Government during 1980-1989 was primarily due to the PNP legacy of financial bankruptcy. Difficult choices had to be made and Local Government was one.

### **2002 Manifesto Position**

The JLP position on Local Government and Reform Programme was summarized as follows in its 2002 election manifesto:Local Government Reform Plan

The JLP will establish an effective, professional and service-oriented system of local governance for more effective representation of the

The JLP is committed to strengthening and improving the effectiveness of Local Government

#### **1)Improve Delivery of Services**

#### **2)Increase Personnel Professionalism**

#### **3)Move to Regional Model**

Introduce legislation to establish four regional councils based on the County structure in Jamaica (Cornwall, Middlesex and Surrey) and the Kingston and St. Andrew Corporation. The new legislation will provide these County Councils with significant authority for regional infrastructure.

Declare Portmore as an official city with the Portmore Municipal Council provided with legislative powers to govern and guide the development of Portmore.

Launch a professional upgrading programme in association with select educational institutions in customer service and managerial training for all council members and officers to improve their ability to execute their duties more effectively.

Amend the constitution to define the period for local government every 3 years.

### **Post 2002 Manifesto thinking**

More recently in the Jamaica Labour Party there has been discussion around the following, although not official party policy:

#### **Structure of local government authorities**

- In order to provide more direct treatment of the peculiar issues that affect densely populated urban areas, it is proposed that there be established the following seven (7) municipalities defined by population (exceeding 50,000) and density (exceeding per sq km):
  - Kingston
  - St Andrew (Urban)
  - Portmore
  - Spanish Town
  - May Pen
  - Mandeville
  - Montego Bay
- Each municipal council would be made up of:-
  - (a) Mayor directly elected by the registered voters within the municipality
  - (b) Councillors elected by each of the local government divisions that fall within the municipality
- The Mayor would preside at meetings of the municipal council. He/she would designate one of the councilors to act in his absence or, in the event of his failure or inability to do so, the council would choose one of its members to so act.

- There would be retained thirteen (13) parish councils as follows:-
  - St Andrew (Rural)
  - St Thomas
  - Portland
  - St Mary
  - St Ann
  - Trelawny
  - St James
  - Hanover
  - Westmoreland
  - St Elizabeth
  - Manchester
  - Clarendon
  - St Catherine
- Each council would be headed by a Chairman and Deputy Chairman elected by the members of the council and would serve for the life of the council subject to provisions in law for their removal.
- Each municipality would be clearly demarcated from the remainder of the parish in which it falls. No local government division could straddle both municipal and parish council boundaries.
- Elections for both municipalities and parish councils would be held every three years and could only be deferred in circumstances similar to those provided for the postponement of parliamentary elections (acts of war, natural disasters, etc.)

### **Functions of local government authorities**

- Land and building development (regulation and enforcement)<sup>1</sup>
- Environmental management (regulation and enforcement)<sup>1</sup>
- Garbage collection and disposal<sup>2</sup>
- Public health (regulation and enforcement)<sup>1</sup>
- Parochial roads and drains
- Regulation of commercial activities and control of vending
- Markets
- Cemeteries
- Public parks and open spaces
- Traffic regulation and management
- Transportation centres
- Abattoirs
- Public beaches<sup>1</sup>
- Animal pounds
- Public sanitary facilities
- Community centres
- Community development programmes
- Sports development<sup>2</sup>
- Cultural development<sup>1</sup>

<sup>1</sup> *Land development and building applications would continue to require the approval of NEPA. NEPA would, however, delegate to the local authorities the power to approve certain types of building applications (e.g. single-storey dwellings, extensions etc.) in conformity with the relevant development orders and building codes and subject to the appropriate guidelines. Roads in newly-developed subdivisions would automatically become the responsibility of the local authority once it has authorized the issue of titles.*

<sup>2</sup> *Orders pursuant to environmental laws would be issued by/through NEPA. Local authorities would be required to enforce these orders.*

<sup>3</sup> *The National Solid Waste Management Authority would be responsible for landfills and dump sites. It would also provide contractual services to the local authorities for the collection and disposal of garbage.*

<sup>2</sup> *The Ministry of Health would retain responsibility for public health care (e.g., immunization, health clinics, etc.). The local authorities would have responsibility for enforcement of public health regulations (e.g., disposal of waste, vector control, inspection of meats, monitoring of food establishments, etc.).*

<sup>2</sup> *The Beach Control Authority would be abolished and its functions absorbed into NEPA which would issue the necessary regulations. Enforcement of these regulations would be the responsibility of the local authorities.*

<sup>2</sup> *The SDC would be abolished and its functions transferred to the local authorities.*

<sup>2</sup> *National sports programmes including club sports would remain the responsibility of the relevant sporting bodies with assistance provided by central government through CHASE. Local authorities would be responsibility for community sports including the provision and maintenance of playfields, coaching assistance and the organization of inter-community competitions. They would also receive subventions from CHASE.*

<sup>2</sup> *JCDC would retain responsibility for national cultural programmes with the local authorities concentrating on cultural programmes at the community level. Both would collaborate (as now occurs) especially in the promotion and production of the Jamaica Festival.*

*N.B. Water supplies would be the sole responsibility of the NWC.*

## **Administrative structures**

- The administrative head of each council (municipal and parish) would be a general manager who would have overall responsibilities for the administration of the council and the efficient delivery of services.
- For each council there would be six departments each headed by a Director or Superintendent:-
  - (1) Finance & Administration
    - Budget preparation
    - Financial management
    - Personnel management
  - (2) Roads & Works
    - Roads & drains
    - Construction and major repairs of amenities
    - Traffic regulation & management
    - Transportation centres
    - Land and building development (enforcement)
  - (3) Health & Environment
    - Environmental management
    - Garbage collection & disposal
    - Public health regulations
    - Abattoirs
    - Animal pounds
  - (4) Public Facilities

- Markets & control of vending
- Cemeteries
- Public parks & open spaces
- Public beaches
- Public sanitary facilities

(5) Community Development

- Community development
- Community centres
- Sports development
- Cultural development

(6) Internal Audit

- There would be a standing committee with oversight responsibilities for each department (1-5) as well as an Appropriations & Accounts Committee to perform functions similar to those of the PAC.
- It would be a requirement for each standing committee to include a minimum number of members drawn from civil society.
- Each council would be free to establish special and *ad hoc* committees as deemed necessary.
- It is proposed that the public (central government) and local government services be merged into a single, unified civil service establishment subject to the same standards, qualifications and appointment procedures, performance and accountability requirements, discipline and remuneration.

## Financing of local government authorities

- At present the revenues that go directly to local authorities are:

Source	Receipts 2000/01
Property Tax	543.6
M/V Licence (2/3)	1,499.3
Equalization Fund	53.0
Local rates & user charges	292.4
<b>TOTAL</b>	<b>\$2,388.3</b>

This provides an average of merely \$111 million for each of the 13 existing councils and had to be supplemented by budgetary provisions of \$775 million. Even with that additional provision, the total of \$3,163.3 million represents barely 3% of the aggregate revenues of both central and local government.

- There is no particular logic in dedicating to the local authorities specific revenue sources since the major sources of revenue (income and consumption related taxes) are collected generally and therefore equally applicable to general services such as those provided by local authorities.
- The establishment of municipalities will create a major anomaly since the bulk of the dedicated revenue collections are derived from municipal areas thereby depriving the remainder of the parish of much needed funds.
- The following proposal is submitted for funding local authorities:-
  - (a) Return property tax and motor vehicle taxes to central government

- (b) Provide (with statutory guarantee) 4% of central government revenues to be allocated to each council either on a per capita basis or pro-rated based on the electoral lists. This latter suggestion would provide an incentive to maximize voter registration and based on estimated revenues for 2002/03 would provide the following levels of funding from central government's budget:

Council	Type	Electors	Budgetary Provision (\$M)
Kingston	Municipal	51,684	199.7
St Andrew (Urban)	Municipal	197,591	763.5
St Andrew (Rural)	Parish	53,330	206.1
St Thomas	Parish	49,359	190.7
Portland	Parish	41,315	159.6
St Mary	Parish	62,912	243.1
St Ann	Parish	90,533	349.8
Trelawny	Parish	40,626	157.0
Montego Bay	Municipal	49,279	190.4
St James	Parish	42,165	162.9
Hanover	Parish	39,009	150.7
Westmoreland	Parish	73,342	283.4
St Elizabeth	Parish	82,269	317.9
Mandeville	Municipal	30,265	116.9

Manchester	Parish	56,102	216.8
May Pen	Municipal	33,455	129.3
Clarendon	Parish	87,651	338.7
Spanish Town	Municipal	68,046	262.9
Portmore	Municipal	59,406	229.5
St Catherine	Parish	92,472	357.3
	<b>Total</b>	<b>1,300,811</b>	<b>5,026.2</b>

*N.B. These budgetary provisions would be supplemented by local rates, taxes and user charges.*

- (c) Councils would continue to collect local rates and user charges (spirit licences, market fees etc.)
- (d) Each council would be allowed to impose local taxes but subject to affirmative resolution of the House of Representatives
- (e) Councils would be permitted to seek loan financing for development projects but only with the prior approval of the House of Representatives

### **Financial management and accountability**

- Each council would be required to develop, debate and approve its annual budget prior to undertaking any expenditure.

- The General Manager would be required to submit revenue and expenditure reports to each monthly meeting of the council.
- The accounts of each council would continue to be audited by the Auditor-General and reported to Parliament.
- The approval of the Ministry of Finance would be required before any council could incur bank overdrafts or similar liabilities
- The selection of contractors and the award of contracts must conform to the procedures established by the National Contracts Commission.
- The functions of the Contractor General would apply equally to procurement and contract awards by local authorities.

### **Ministry of Local Government?**

Based on the above proposals there would be no need for a Ministry of Local Government. Indeed, it would be a contradiction in terms once we opt for effective, responsible local government.

### **Portmore: The New Municipality**

In 1965, a comprehensive plan was designed by Government, under the auspices of the Urban Development Corporation (UDC), for the development of 27,000 acres of low, middle income and upper income housing, schools, medical facilities, churches, light industry and a tourist resort for a community in St. Catherine, which was to become Portmore.

The first phase of the housing solutions, Independence City, a complex of attractive homes, caught the imagination of Kingston residents and set the pace for subsequent growth resulting in -- the emergence of Edgewater, Braeton, Bridgeport, Waterford and Westchester.

In 1991, Government facilitated investments in Greater Portmore of more than \$7 billion, through the San Jose Accord, the Commonwealth Development Corporation Fund and the National Housing Trust. This resulted in the construction of more than 14,000 housing solutions and the upgrading of the infrastructure in that area.

Today, more than 160,000 Jamaicans reside in Portmore, making the community the second largest and fastest growing urban centre in Jamaica.

As the community grew to include industries, schools, churches, shopping centres, recreational facilities and other amenities, a strong cadre of Citizens Associations merged to articulate the call of citizens for the declaration of Portmore as a city.

## **Questions & Answers about the New Municipality**

### **What is a Municipality?**

A municipality is defined as a town or district that has its own local government. This means that the responsibility for meeting the cost of services, functions and operations will come front revenue generated by the residents in the communities. The Municipality of Portmore will, therefore, have autonomy in the effective management of the affairs of the area wit hin its jurisdiction.

### **What are the powers of the Municipality?**

The Portmore Municipality will have a substantial degree of autonomy within the parish of St. Catherine. It will be responsible for:

- The preparation and adoption of an annual budget and work plan for Portmore
- Maintenance and enhancement of the revenue base for Portmore
- Solid waste management (garbage collection and street cleaning, etc.)
- Street lighting
- Code Enforcement
- Beautification

### **How will the Municipality be Governed?**

The Portmore Municipality will be governed by a Municipal Council comprised of the following:

- A **Mayor**, who shall be directly elected by all eligible voters who appear on the list of registered voters of all polling divisions that fall within the approved boundaries of Portmore
- A **Deputy Mayor** who shall be elected (from among themselves) by Councillors on the Portmore Municipal Council.
- **Councillors** who represent the Parish Council (Electoral) Divisions, which fall within the boundaries of the Portmore Municipality.

The Mayor and Councillors should be registered voters, eligible to vote in the election of the Mayor of the Municipality.

## **What is the role of the Mayor?**

The Mayor shall:

- Preside over meetings of the Municipal Council
- Prepare and present an annual estimate of Revenue and Expenditure to fund the operations of the municipality, for approval of the Council
- Be responsible for ensuring that decisions of the Council are executed in a timely and effective manner
- Nominate for approval of the Council, the members and chairmen of the committees of the Council
- Act on behalf of the Council, in between meetings of the Council

## **How will the Municipality be Financed?**

The Portmore Municipality will be financed from:

- Property taxes collected from holdings in the boundaries of the Municipality
- Motor vehicle licence fees (a proportionate share Of receipts by the Parish Council)
- Local rates: in respect of specified related services and municipal improvements
- Trade and spirit icences
- Building fees
- Fees from other regulatory functions

- User fees and charges

### **What will be the relationship of the St. Catherine Parish Courted to the Municipality?**

The St. Catherine Parish Council will continue to have overall jurisdiction for the parish and direct responsibility for certain specific services and functions relating to Portmore. However, the Municipality's budget will be independent of that of the Parish Council.

There will be collaboration between the Municipality, the Parish Council and Central Government in carrying out major projects.

### **As a resident, how will I benefit from being a Municipality?**

There are numerous benefits for residents of Portmore. Some of these will be.

- The orderly planning and development of the Municipality
- Easier access to members of the Council and the Mayor
- Opportunity for direct involvement in the Management of the community and in shaping Us development
- Structured approach to business and investment in the community

### **Will residents have to pay more for the delivery of services?**

**Yes** Residents of Portmore may have to pay for the provision of designated municipal] services, whether such payments are by way of dedicated taxes, rates or

fees. However citizens will be able to determine the level of services they desire, based on what they are prepared to pay for these services.

**Will I be able to elect my own Mayor?**

**Yes.** As long as you are a resident of Portmore and is an eligible voter whose name appears on the list of registered voters within the Municipality.

**Do I still go to the St. Catherine Parish Council to report on potholes, etc.?**

**No** You will go to the Portmore Municipality who will instruct the Parish Council

**What services will the Parish Council continue to deliver?**

The Parish Council will continue to be responsible for

- Poor relief and welfare services
- The local Board of Health for the parish
- Roads and the infrastructure (execution of works)
- Pounds and control of animals
- Cemeteries

**Municipal Bonds: Funding for Local Government in the future**

**Case Study: USA**

Municipal bond markets provide a vehicle to narrow local governments resource gap through schemes varying from debt funding based on the full faith and credit of sub-sovereign issuers, to revenue bonds secured by the earnings of such projects as water facilities and toll roads. This note reviews the main characteristics of the US municipal bond markets-the most advanced by any measure of depth and sophistication. A separate note discusses the conditions underlying the development of municipal credit markets in developing countries.

### **VARIOUS CATEGORIES OF MUNICIPAL BONDS**

In their broadest definition, municipal bond markets refer to borrowings by sub-sovereign public entities, directly or through their public corporations, to fund general-purpose expenditures or specific purpose projects. The US municipal bond markets have developed over the past hundred years into a main component of the credit markets. The growth of these markets may be attributed to the country's decentralized federal structure and the innovations that have characterized its financial system. The tax status under which US municipal debt is issued may have had an impact on market growth. Municipal securities are sometimes referred to as the "tax-exempt" segment because interest earnings on municipal issues are exempt from federal income, and possibly state and local, taxes. The tax regime has been subject of a number of reforms (including the major Tax Reform Act of 1986) and of policy debates beyond the scope of this note. European countries with centralized processes for regional resource allocation-and where local government debt had often implied sovereign guarantee-have lagged behind. Reforms are however taking place and municipal markets (in Italy and Spain) are slowly developing. Amongst other developed countries, Australia has also created a truly sub-sovereign debt market.

Municipal bonds have been the primary vehicle for financing local infrastructure in the US. They include general obligation bonds supported by the taxing power of

local governments as well as project revenue bonds by states and local jurisdictions such as counties and cities (including their "special purpose" corporations).

### ***General Obligation Bonds***

General Obligation (GO) bonds are debt instruments issued against the full faith and credit of local governments. They remain essential financing instruments of tax-supported capital projects. Unless certain tax revenues are specifically restricted, issuers generally back GO bonds with all their revenue raising powers. Typically, local governments at the municipal level issue debt obligations against their ability to raise property taxes. Sub-national governments at the state level usually issue debt obligations against unrestricted revenue streams such as sales or income taxes. The capacity and willingness of local governments to service their GO debt depend upon the economy as well as their financial performance and debt burden. Property taxes have been a main source of municipal income, although in the US their share of total revenues has been decreasing (from over 95% in the thirties, to less than 80% on average today) as a result of: (i) the value of real property not being necessarily linked to household income and therefore to constituents' ability to pay taxes; and (ii) growing political resistance and legal barriers to increasing property taxes (as reflected for instance by Propositions "13" in California and 2&1/2 in Massachusetts).

### ***Other Categories of General Obligation Bonds***

Other categories of GO bonds have been developed in the US. For instance, "Special Purpose Districts" are political subdivisions created to provide economic development or related services to residential, commercial or industrial areas. These can be both within an incorporated municipality and outside its limits, in "developing areas". These districts can represent viable arrangements for effective delivery of public utility services such as water, sewers, hospitals, fire protection and roads, when demand overflows administrative boundaries of individual local

governments. Special district obligations are generally tax-backed although their ability to raise taxes may often be restricted, by tax ceilings for instance. "Tax Increment Districts" can levy taxes on the growth of property value and have been used to fund the re-development of neglected downtown areas. These have been viewed as viable and safe instruments when the project area is of significant size and presents a good diversity amongst taxpayers. Some of the special districts may be more speculative in nature.

### ***Revenue Bonds***

The second main category of municipal debt consists of "revenue bonds". User fees or dedicated taxes rather than the general taxing power of local governments secure these. US revenue bonds have included issues for a wide range of investments including health care, higher education, transportation (highways, mass transit, toll roads, ports, airports) and utilities (water, waste water, power, natural gas). Security for this kind of debt may vary considerably but is typically a single dedicated revenue stream directly related to the services provided. For example, revenues from electricity sales can secure bonds sold to build a power plant. However, for municipal facilities for which revenues would not be sufficient to service debt-such as convention centers, parking and street lighting-the security could be a dedicated sales tax, a fuel tax or a combination of both.

Municipalities may sometimes issue a hybrid of general obligation and revenue bonds to enhance the credit of marginal investments. These so-called "double-barreled" bonds are secured by an enterprise's revenues and, should these not be sufficient, an additional security pledge of full faith and credit of the issuer government.

### ***Creditworthiness of General Obligation Bonds and Revenue Bonds***

The comparison of GO bonds to revenue bonds in terms of creditworthiness is not straightforward as a number of factors come into play. On the one hand, the

attractiveness of financing capital projects through user fees rather than broad-based taxes has, since the 1970's, reduced the capital market dominance of GO financing over revenue bonds. This is due to the: (i) limited and uncertain legal capacity of governments to carry ever larger debt burdens; and (ii) continuing market innovations which favor revenue bond issuance. Moreover, as strong as a tax-backed GO pledge might be, it is no absolute guarantee of repayment. In fact some investors might view a dedicated stream of revenues from services by a government utility as a more flexible and reliable security allowing for an increase in user fees as opposed to tax rates/bases subject to voter authorization, restriction or repeal. On the other hand, the security for revenue bonds remains narrower than broad-based GO bonds which can call on property, income and sales taxes to meet debt service requirements. In addition, the competition which may exist among providers of services may squeeze profitability and market share and introduce uncertainty as regards repayment ability compared to GO tax-backed obligations.

### ***Short-term Municipal Instruments and Other Features of Municipal Debt***

While municipal markets mainly consist of long-dated issues, there are also short-term municipal instruments such as municipal notes and commercial paper.

Although commercial paper (CP) is issued for periods ranging from 30 to 270 days, a CP "program" itself could be rolled-over for several years so as to exhibit a strong relationship to long-term debt. For instance, short-term "revenue anticipation notes" and in particular "tax anticipation notes" are issued to address seasonal mismatches between expenditures for ongoing operations and lump sum receipts.

Municipalities also use debt instruments with features aimed at minimizing initial cash outlays or interest costs. For instance municipalities may issue "zero coupon" bonds with no coupon payment to bondholders. Instead the bond is issued at a deep discount and matures at par-the advantage being the smaller initial cash outlay by

the issuing municipality. The difference between par value and the original discount price could be translated into a specified annual yield. A variant is the "municipal multiplier" which is a bond issued at par and does provide for interest payments; however interest accruals are only paid at maturity assuming that the undistributed payments had been re-invested at an agreed yield (usually the bond yield-to-maturity at issue). "Variable-rate demand obligations" are interest-bearing notes with "put" features tied to specific short-term indices, sold by municipalities to finance capital projects. These are part of the "structured" finance products.

### ***Structured Municipal Finance***

"Structured" financings have become part of the municipal debt markets. These are conventional debt instruments combined with derivative products such as futures, options and swaps. (Futures are contracts where financial commitments between two parties are "settled" at a future agreed date. Options are buy/sell agreements where, against an up-front fee, one party acquires the discretionary right-with no obligation-to settle a financial contract at an agreed price and time. Swaps are contracts whereby two parties agree to assume each other's financial liabilities as these come due.) While derivatives may be used for speculative purposes, they also are powerful instruments for "hedging" risk-i.e., for protecting a financial position against unwanted market price movements. Structured financings may thus entail risk mitigating and credit enhancement features embedded in the debt instruments. A "puttable" bond for instance gives investors the right to sell back-if they so elect-the security to the issuer at an agreed price (usually the par value) at designated dates or within specified periods. Bondholders may elect to "exercise" such a right should they become concerned about the deteriorating credit standing of an issuer. Put options also provide bondholders with market protection in an environment of rising interest rates, as they could redeem their investment at par-though the market value of their bonds might have fallen below par-and re-invest the proceeds in

higher yield instruments. Conversely, from the issuers' stand-point, municipal bonds may entail a "call option", an arrangement which permits an issuing municipality to redeem-at its option under specified conditions-the bond before the scheduled maturity. An issuer would elect to exercise such a right if, in an environment of declining interest rates, the outstanding debt-which carries a high fixed coupon rate-could be replaced by lower cost borrowings.

Derivative products which extend market and credit risk protection to investors (e.g., put options) and market hedge to issuers (e.g., call options) are provided at a price paid for by the beneficiary of the derivative instrument. For instance a municipal debt issue with an embedded call option should carry a higher yield than a conventional issue-a "premium" that compensates the bondholder as to the uncertain maturity of his holding. Other derivatives, such as interest rate swaps or forward contracts, may allow municipal issuers to hedge their financial position in altering the risk profile of their liabilities say from variable to fixed rates, or setting a cap on the potential cost of borrowing. Swaps are also used by bondholders to similar ends. Structured products entail though a number of risks, and in particular credit risk.

### ***State Revolving Funds***

The US "State Revolving Funds" (SRFs) are pool finance arrangements that provide low-cost loans to local entities for projects that comply with national regulations. These were introduced in connection with the 1984 "Federal Clean Water Act" on environmental regulations. They involve capital grants from the federal government to the state, matched by a contribution from the state (currently 20%). Matching contributions are primarily funded with proceeds of state general obligation, and less frequently revenue, bonds. SRF lending is mostly accomplished in leveraging central capital grants and state matching funds through bond issuance. The size, composition and diversification of the loans extended by

the fund enhance the quality of the overall portfolio above the pool's weakest credit. Mechanisms enhancing the credit of the bonds issued by the fund can also be considered, for instance in subordinating one class of debt to the rights of senior creditors.

## **CREDIT RISK ISSUES**

Unlike US Government securities, municipal debt obligations are not immune to default. In the mid-70's, New York City had to default on its debt obligations rather than disrupt the provision of basic city services. (Note that this default did not result in liabilities for, nor prompt a rescue by, the Federal Government-a reflection of the maturity of the US municipal bond markets.) Credit ratings, which allow investors to gauge the creditworthiness of municipal issuers, and financial and legal mechanisms (such as options or guarantees) that enhance the credit quality of municipal debt have become important factors in investment choices.

***Credit Rating.*** The capability of rating agencies to assess the creditworthiness of municipal and other issuers has considerably evolved since the time of the Great Depression. Indeed, "of the municipal debt issues that were rated by a commercial rating company in 1929 and plunged into default in 1932, 78 percent had been rated AA or better, and 48 percent had been rated AAA". Credit ratings have now achieved "wide investor acceptance as easily usable tools for differentiating credit quality". They have become important parameters in investment decisions, particularly in the US municipal bond markets, which have a strong individual investor base averse to, and ill-equipped to assess, credit risk. It is no surprise thus that most US municipal debt issuers have secured a credit rating by one or more of the leading rating agencies. The stamp of a rating agency is however no guarantee against default as the financial condition of a rated entity may change, sometimes rapidly-as shown by the example of "Orange County" in California which despite its high quality rating had to file for bankruptcy protection as a result of

speculative financial management. Another example is "Washington Public Power Supply System" which defaulted on its debt obligations in 1990 while these had high quality ratings. Outstanding debt ratings may thus be subject to downgrade/upgrade should a rating agency consider, in the course of its surveillance process, that material changes in the financial condition of an issuing entity do warrant a rating review. The issuer rating may be put under "credit watch" until such time as a revised rating is announced.

***Credit Enhancement Mechanisms.*** The creditworthiness of municipal debt issues may be enhanced by special features which confer preferential status on debt obligations. These include seniority, collateral security, guarantees, put options, joint and several liability of a number of entities, and bank letters of credit for short-term debt. Municipal debt can also have the legal provisions of "public credit enhancements" which may entail state insurance programs, central/state guarantees, and automatic withholding and use of state aid-most common in the US-to meet defaulted debt service. Such programs may be used both to increase market acceptance of bond issues and lower interest costs. Securitization is another credit enhancement tool. [Mortgage-backed securities, though not related to local government finance, provide an example of securitization which has considerably strengthened the housing finance market-its essential pillar being the diversified residential housing stock that backs the debt issues. Added to the physical asset, is the "public credit enhancement" resulting from the implied sovereign guarantee for the federal housing agencies (FNMA, GNMA) in the case of "pass-through" mortgage securities]. Other forms of municipal credit enhancements may use separately capitalized subsidiaries which could be made "bankruptcy-remote". Finally, a potent form of municipal credit enhancement is bond insurance.

***Bond Insurance.*** Bond insurance has played in the past 15-20 years an important role in the growth of the US municipal bond markets. Indeed, individual investors

rely on bond insurance to enhance the quality of the assets they are willing to hold. Yet, bond insurance in the US has not been a vehicle for allowing non-creditworthy issuers to have market access. Rather, the insurance by "AAA" rated insurance companies allows small issuers at the lower end of the investment grade ("BBB" and "A") to access the national market for high investment grade debt. This enhances the liquidity of the issues which can then trade on secondary markets. Close to 50% of total US municipal bond (75% of "BBB" and "A") issues are covered by bond insurance. Providing insurance coverage only to investment grade (i.e., low default risk) credits while charging low premia makes the economics of insurance attractive to issuers. (Insurance firms further enhance their profitability through high leverage and investment income.)

## **PRICING OF MUNICIPAL DEBT**

Debt by non-sovereign, including municipal, borrowers is priced in reference to the government securities yield curve, where spreads reflect issuers' parameters in terms of creditworthiness, liquidity and size. Given the tax-exempt features of municipal debt, the true reference for investors in US municipal securities would be the "taxable equivalent yield" which must be earned on taxable treasury bonds to produce the same yield as a tax-exempt municipal bond.

## **CONCLUSION**

Municipal bonds, an important segment of the US securities markets, have been a primary source of local infrastructure finance. The challenge would be to develop these markets in developing countries, where local government borrowings have been largely confined to bank loans often with central government guarantees.

## **Case study of developing countries**

Against a background of fiscal restraint, governments in developing countries have come to realize that private resources must be mobilized to support the growing demand for infrastructure services. One way is through privatizations and concessions for private provision of infrastructure services which are taking place at a growing pace. Decisions for the provision of these services are also being increasingly decentralized with municipalities playing a growing role in forging partnerships with financiers, operators and constituents. Municipal governments seek to fund capital investments and cover operating costs through local taxes and user charges and, as available, central government transfers. Where essential services-that are not provided through private operations-cannot be funded by current revenues, the financing gap that emerges would have to be filled through borrowings. In many developing countries, local government borrowings have largely been confined to loans from commercial banks or specialized financial institutions, often with central government guarantees.

This note discusses the conditions underlying the development of municipal credit markets which can provide a vehicle to narrow local government resources gap through debt funding supported by the taxing power of local governments and revenue bonds secured by the earnings of such projects as water facilities and toll roads.

## **MUNICIPAL DEBT MARKETS AS A SOURCE OF LOCAL GOVERNMENT FINANCE IN DEVELOPING COUNTRIES**

Developing countries have been able to attract local and foreign equity capital for private infrastructure investments. Mobilizing debt funding however has been more difficult, particularly for sub-sovereign government entities.

As far as local infrastructure finance is concerned, foreign exchange resources could be a complement to, but not a substitute for, local currency funding. Indeed, some sub-sovereign entities or projects with strong revenues base can mobilize and afford the costs of external funds, especially when borrowings cover foreign exchange outlays or finance projects that generate foreign currency receipts. However, without the necessary complement of domestic resources, foreign borrowings might not be a "sustainable" funding source for many local governments across the spectrum of infrastructure projects. Moreover, external funding may in some cases add penalties to borrowing costs. Take the hypothetical case of a relatively well managed sub-sovereign entity (say a public utilities company) that is seeking debt finance for its expansion plans. With a credit rating of say "A" for local currency debt, it might have issued domestic debt at a cost of "yA". Assume that it cannot borrow on the local market (given the market inadequate size and depth) and must seek instead external financing. Its rating for foreign debt issues would be capped by the country's sovereign rating, say "BB", as a result of which the cost to the company of foreign currency debt would be "yBB" (more "burdensome", all other things being equal, than "yA"). Moreover, when raising foreign currency debt, borrowers may often need to swap back the debt proceeds, or part thereof, into local currency funds thus adding swap transaction fees and risks to the overall cost of debt. Finally, when debt is denominated in foreign currency, utilities companies or local government issuers would be increasing their currency exposure as a result of the mismatch between their foreign currency denominated liabilities and their revenues mostly accruing in local currency (save for some international transport and telecommunications projects).

The challenge is to expand the "market-based" funding pool for local governments by tapping private individual and institutional savings. In some developing

countries, there is a growing demand for diversified long-term assets, beyond the traditional obligations of sovereign or corporate issuers. (For instance, infrastructure, particularly transportation-related, projects are being funded through capital market debt issues based on stand-alone credits similar to US municipal revenue bonds. Debt Securitization is also taking place backed by export trade receivables.)

### **CONDITIONS FOR THE DEVELOPMENT OF SOUND MUNICIPAL CREDIT MARKETS IN DEVELOPING COUNTRIES**

There are challenges associated with local government access to private savings in developing countries, where financial and institutional capacity at the local level is often constrained and where local infrastructure investments are sometimes associated with inefficient implementation, unattractive returns and high credit risk-hardly an inducement for investors seeking competitive risk-adjusted returns, and lenders wary of poor credit. The development of domestic municipal bond markets should thus go hand in hand with improvements in the local government revenues base and in the institutional framework within which municipal services are delivered. Of importance also is the development of effective mechanisms to diversify and transfer risks. But first, the broad macro-economic framework should be such as to foster domestic savings and the efficient allocation of credit.

#### **Macro-economic Issues**

Municipal credit markets develop as a sub-set of domestic capital markets which, beyond the confines of municipal governments, require rational macro-economic, fiscal and monetary policies. Like other fixed income instruments, municipal issues will remain attractive to bondholders only when inflation is kept in check. Moreover-as a result of political constraints-local government borrowings in developing countries may de facto become part of the overall public sector debt. This makes it crucial for countries seeking to expand local borrowing operations to

ensure that the consolidated public-including local government-debt remain consistent with macro-economic policy objectives and fiscal targets. Departure from these principles might have destabilizing effects at the macro level. Genuine municipal bond markets imply that municipal issues should entail no sovereign support or guarantee which might create contingent liabilities at the sovereign level. As a result they would be priced at market-determined rates usually at a spread above central government securities.

### ***Institutional and Regulatory Issues***

The development of municipal credit markets also requires that local governments have sound institutions, predictable fiscal relations with the central government and an efficient organizational setting for services delivery. This implies transparent city budgets, credible accounting systems and independent audits, a sound competitive environment with rational pricing policies and monitorable performance criteria for monopoly services. Private provision of infrastructure services and concession arrangements-many of them already proven-must be encouraged and developed. Public utilities companies should be autonomous and have a secure recurrent income through reliable services to consumers. To play their role effectively, capital markets must rely on well functioning banking institutions with reliable payment systems and custodial services.

Municipal credit markets also require adequate legal and regulatory frameworks covering supervision, disclosure, and debt issuance, settlement and repayment. Regulations allowing municipal bankruptcy would be needed in the event of default. Strains on municipal finances which might show in periods of economic downturn are likely to be combined with declining central government transfers and mounting taxpayers resistance to higher levies. Creditors' rights and the seniority of their claims on municipal assets should thus be well specified as these claims (even on "dedicated" revenues/taxes) would likely be weighted against the

effects of disrupting the provision of critical public services and actually subordinating such other municipal liabilities as employees pension claims.

### Credit Issues

Credit risk accounts for a critical component of investment risk, since as a result of issuer's default, returns and initial capital could be lost. Credit quality thus becomes a determinant parameter as far as market acceptance and pricing of debt are concerned. Countries with developed financial markets rely fairly strongly on credit ratings which provide independent "opinions" to investors as to the creditworthiness of debt issuers. Moreover, there is a scope for developing countries to increase the use of financial and legal structures that enhance the credit quality of municipal debt-guarantees, insurance, securitization and derivative products-and improve investors acceptance of debt issues. In countries with sound banking systems, it might also be possible to issue municipal debt backed for instance by bank letters of credit, with the effect of transferring all or part of investors' exposure away from issuing municipalities to more creditworthy commercial banks.

***Credit Rating.*** Local governments planning to tap the credit markets may find it beneficial to avail themselves of a credit rating by a recognized rating agency. A rating entails a credit agency review that would measure local government ability to service debt in light of available taxes and other resources, and assess their record in honoring financial commitments, especially under adverse circumstances. Relevant areas of focus would be the economic and social characteristics of the constituency, and the structure of the government debt and financial operations (including sources of revenues, spending requirements and unencumbered cash available). Improving the credit standing of municipal issuers requires that municipal tax bases be expanded, tax rates rationalized, and that local (including

infrastructure) investments be screened to select those that have large pay-offs in helping cities develop services, expand business and increase employment.

As a general rule, no issuer will receive a rating that is higher than the sovereign rating of the jurisdiction in which the issuer is located-the so-called "sovereign risk ceiling". This reflects the risk that the depreciation in the value of the local currency or imposition of foreign exchange controls might restrict the ability of sub-sovereign issuers to honor their debt service obligations. Under certain circumstances however, securitization, through offshore receivables for instance, may provide the basis for a credit rating that may be above that of the sovereign.

***Bond Insurance.*** Bond insurance should not be viewed as a substitute to the creditworthiness of municipal issuers but as a mechanism that enhances market acceptability of a debt issue and/or reduces its cost. Extending municipal bond insurance-an important feature of today's US municipal bond markets where some 50% of total issues are insured-in developing countries would be contingent inter alia upon the existence of: a large pool of debt instruments, including corporate and municipal issues, which could be insured-allowing for the necessary diversification underpinning the insurance concept; and consistent credit ratings that respond to the credit-conscious investor base of the municipal markets.

### ***Pricing of Local Government Debt***

In countries with market-determined interest rates, the "risk-free" central government securities-deemed to be free from credit risk as these carry the full faith and credit of sovereign governments when they issue debt in their national currency-provide the reference yield curve (benchmark) for pricing other debt obligations including corporate and municipal issues across the maturity spectrum. Some developing countries still conform to a different pattern where administered interest rate structures make the ready identification of a benchmark difficult. (In China for instance, where the bond market is under relative government control,

non sovereign debt issues must comply with the State credit plan. Coupon rates on corporate bonds and rates on commercial bank deposits may not be higher than those on government securities of comparable maturities.) Efficient credit markets require that the level and structure of rates reflect economic conditions where: (i) short-end, base rates (e.g., US federal funds rate) are set by monetary authorities in the context of monetary policy objectives; and (ii) long-term rates reflect inflation expectations as expressed by the "market"-i.e., investors in the primary or secondary markets. Debt by non-sovereign, including municipal, borrowers can then be priced at a spread above the reference risk-free yield curve, where spreads reflect issuers' parameters in terms of creditworthiness, liquidity and size. When the government market cannot provide a benchmark due to the absence of market-determined interest rate structures, or the absence of securities in specific maturity ranges-such as India where there were no government debt issues beyond a ten-year maturity-efforts have to be made to develop "synthetic" benchmarks (or proxy yield curves).

### **INFRASTRUCTURE BANKS**

Mobilizing foreign equity to fund infrastructure investments in developing countries has now become common, although selective in terms of countries and sectors, and often flowing in enclave investments. A strong challenge for local governments is to raise debt finance in the domestic as well as eurobond markets. A number of developing countries have established "municipal development funds" as a channel for municipal credit. Many of these funds have been mainly substitutes for government grants to municipalities. Others now seek to serve as a bridge to private credit markets in borrowing on the domestic or foreign markets-though mostly with central government guarantees-and lending to municipalities, directly or through domestic banks.

A challenge would be to move this concept further along commercial principles, and assess the feasibility of establishing "infrastructure banks" that could issue "market-based" long-term debt (neither guaranteed nor subsidized by the government) for viable, revenue generating infrastructure investments. The in-built diversification of the portfolio of these banks resulting from the variety of sub-sectors/borrowers, and hopefully the quality of their investment portfolio: (i) would provide a good security for, and strengthen the credit quality of, the debt issued; (ii) could open for smaller borrowers (companies and local authorities) the access to the debt market; and (iii) would allow the use of credit enhancement mechanisms (such as bond insurance) which may be brought to bear only in the case of an expanded and diversified pool of debt. These might be domestic or international funds that raise resources through bond issues in developed and/or developing countries. (The US "State Revolving Funds" provide an example of infrastructure banks with an element of public support where lending is mostly accomplished in leveraging central and state capital grants through bond issuance on the municipal debt markets.)

### **CHALLENGES AHEAD**

In developing countries, municipal infrastructure investments require an enhanced institutional base and increased financial resources. Private provision of services and concession arrangements are rapidly developing across countries and sectors. Where these cannot be put in place for the delivery of essential services, fiscal resources could be leveraged by tapping the long-term credit markets best suited to the long-dated maturity requirements of infrastructure finance. A number of developing countries have made progress along this path, with Latin American relatively advanced in the process. In other regions, South Africa has a relatively developed capital market and a public debt market with a meaningful volume of local government debt outstanding. Some large cities have been able to issue

foreign currency denominated debt in the eurobond markets. In April 1994, the city of Prague issued US\$250 million in five-year, fixed-rate notes that had a "BBB" investment grade rating. More recently, in July 1996, Rio de Janeiro issued US\$125 million in three-year, fixed-rate "direct, general, unsecured and unconditional" obligations of the city. Despite a "B" non-investment grade rating, the issue (priced at a spread of some 400 basis points over the reference three-year US treasury note) was well received by international investors. Other large developing country cities are now considering debt issues on the eurobond market. In the municipal finance sector, the World Bank is currently directing efforts at: assisting in regulatory reforms; clarifying inter-governmental fiscal relations; promoting the private provision of local services; addressing resource and capacity constraints associated with decentralization; strengthening the institutional setting for service delivery by local governments; and supporting capital market reforms. Parallel efforts-involving commercial banks, debt underwriters, institutional investors, bond insurers, utilities operators, rating agencies, regulators and central and local governments-should be directed to creating the conditions for the development of domestic credit markets for local infrastructure finance and helping developing countries establish markets for general obligation bonds (issued against the tax collection powers of local governments) and revenue bonds (secured by user fees) which would not create or imply contingent liabilities at the sovereign level.

Beyond the broad financial sector reforms required to foster domestic savings and efficient credit allocation, such efforts should aim at: (i) improving guidelines regarding accounting, disclosure, auditing and credit rating; (ii) developing underwriting and distribution capabilities for domestic debt issues; (iii) structuring credit enhancement mechanisms involving bond insurance, securitization and other risk diversification and transfer measures; (iv) helping define benchmarks for

pricing municipal obligations; and (v) assessing the feasibility of establishing commercially viable infrastructure banks.

## Issues for Future Consideration

In order for the successful implementation of the Local Government Reform Programme(LGRP) the following have to be seriously considered:

- 1) Jamaica's towns and cities have grown rapidly over the past two decades. While the Kingston Metropolitan Area (KMA) dominates Jamaica's urban structure, there is evidence that its dominance is slipping. The growth of the secondary cities and towns such as Montego Bay and Ocho Rios is linked to the recent growth of Jamaica as a mass tourism destination.
- 2) The most serious shortcoming of this rapid urbanization is the capacity of the nation's institutions at both the central and local level to manage this growth effectively. One result is the disparity in the level and quality of service provisions within parishes (urban versus rural) and between parishes. Another is the inadequate maintenance of existing systems. Per capita capital expenditure and maintenance expenditure was lowest in the parishes along the southern belt (Clarendon, Manchester and St. Elizabeth) and included one of the most rapidly urbanizing parishes, St. Catherine.
- 3) In terms of economic characteristics and urban growth trends, Jamaica can be divided into five main regions viz: the tourism north coast belt consisting of the parishes of St. Ann, Trelawny and St. James; the Kingston Metropolitan Region including the parishes Kingston, St. Andrew and St. Catherine; the southern agricultural/mining parishes of Clarendon, Manchester and St. Elizabeth; the agricultural and tourism influenced parishes of Hanover and Westmoreland; and the agricultural parishes of St. Thomas, St. Mary and Portland.

- 4) Lack of available capital for needed investment is the major reason for service level disparities and insufficient service coverage. Those parishes with the lowest per capita expenditures are also those parishes with the lowest per capita income (St. Catherine, Clarendon, Manchester and St. Elizabeth).
- 5) Policy, legal and institutional factors also contribute to the above-mentioned problems being experienced by the Parish Councils. One such factor is the lack of integrated planning. There is very little coordination between spatial planning, economic planning and budget allocations. As a result, sector plans are developed for parishes without adequate consideration of the spatial implications of these investment decisions and the capacities of the Parish Councils to respond to these decisions.
- 6) Institutional fragmentation in the land development process has contributed to the isolation of the planning function and its lack of coordination with the work of the infrastructure delivery agencies. This has resulted in wasteful investments as the installation of water mains; sewer mains, electricity and road resurfacing all take place as parallel rather than coordinated activities.
- 7) The lines of command and responsibility for the provision of services are not clear between central government and local government, particularly among those services, which have been handed back to the local authorities. As a result, funding for these services and enforcement of rules and regulations are not carried out efficiently and effectively.

8) The sustainability of infrastructure delivery and the provision of services at the local level depends, to a large extent, on the ability to recover costs, collect fees and implement appropriate levels of fees and charges.

9) Improving the capacity within the parishes to plan and manage growth is also important for improved service delivery at the local level. A more integrated outlook of all development efforts taking place within a parish or region will allow for greater coordination of developmental tasks at the local level. Parish Councils must play an increasing role in coordinating development at the local level and ensuring that development meets not only national but local needs.

10) Although, the Reform Programme speaks to the formation of a District Development Committees for urban areas (DDC) and Community development Committees for rural areas (CDC) in order to give all the people a voice, However, the Reform Programme needs to ensure all CBOs(Citizens associations, Youth Groups, PTA Groups) are registered to ensure no stakeholders are left out.

11) Although the section on Government and Local Government Reform gives a brief analysis on the problems of funding, perhaps, as suggested in the case studies to have budget community meetings to give input as to how the budget could be best spent in the community, should be given serious consideration.

12) The Role of the City Council/Parish Development Council/Parish Council and its representation, although, seemingly transparent needs to be made clearer so that the people do not get the impression that they are being disenfranchised through bureaucracy.

## Appendix 1

### Local Government Reform Case Study: Wales, United Kingdom

The following are excerpts from the Welsh Commission on Local Government reform, such similarities as lack of voter interest and the first past the post problem voting problems and other similarities and dissimilarities were noted.

A Commission was established by the Welsh Assembly Government in June 2001 to examine and report on local government electoral arrangements in Wales. The Terms of Reference broadly, consulted widely, and set our investigation in the context of the changing shape of Welsh local government brought about by the recent introduction of new political management arrangements in local authorities. In addition to considering the case for recommending some form of Proportional Representation (PR) for Welsh local government elections, it looked at a range of other matters, including levels of public participation in local elections as demonstrated by turnout and numbers of contested elections; methods of voting; frequency of elections; and councilor numbers. We paid particular attention to the need to promote equality of opportunity in our electoral arrangements. We make recommendations on all these matters. Unless indicated otherwise, our recommendations are unanimous.

Local authorities provide a wide range of local services on which people rely, and effective local government is central to the quality of life of local people. Local government also has the distinctive characteristic of being an elected tier of authority, with its own democratic mandate and direct representation of local people by councillors. We continue to need able and

dedicated people to offer themselves for this form of public service, and this will remain the case as Welsh local government reforms the way in which it discharges its functions.

Existing local government electoral arrangements are based on the election of members from electoral divisions, using the First Past the Post (FPTP) electoral system. In some authorities, each electoral division returns one member only, but in other authorities multi-member divisions are used and up to five members can be elected from a single division; other authorities again use a mix of single member and multi-member divisions. As an electoral system, FPTP has been criticised for producing results in which each political party's share of the votes across an authority's area is only rarely accurately reflected in its share of the seats; this disproportionality appears to be particularly likely to occur where multi-member electoral divisions are used.

In terms of composition of authorities, councillors in Wales typically are white, male, older than the average of the population, and retired. Fewer than 20% of Welsh councillors are women, and unlike other parts of the United Kingdom, there is no sign of this proportion increasing. Fewer than 1% of councillors in Wales are from an ethnic minority background.

Wales has a significantly higher proportion of uncontested local government elections than do other parts of the United Kingdom. These occur particularly in rural areas, but they are also quite common in more urban areas. In 1999, around 13% of the Welsh electorate had no opportunity to vote for their local councillors because the elections were not contested. Where elections were contested, turnout averaged around 47%, although in some authorities it dropped to around 40% and in others reached 60%. Overall, taking account of uncontested elections, around 41% of the Welsh electorate voted in the local

elections in 1999.

We held public meetings in each of the local authority areas in Wales, and heard views from local people. Some told us that there was too much party politics in local government and that they would be less inclined to vote for political candidates, who would put party interests before those of local people. Others said that people did not vote because it served no useful purpose, and that it made no difference who was elected. Various reasons were given for this, including the suggestion that local government had lost too many powers to central government to have any worthwhile role, and that the electoral system itself produced too many "safe seats" for particular parties and so discouraged people who supported other parties from voting. We were also told that there was very little understanding of how local government worked and what role it played in a system of government in which there were so many different tiers of authority. Given this lack of knowledge, it was not surprising that local people did not see voting in local elections as important, although if a particular issue that would have an impact on them arose, it was still possible to engage people in local campaigns.

We recognise that voters will only want to use their opportunities to vote if they believe that the issues in local elections are important to them, and that their votes could be important in influencing possible outcomes. We want to create a better understanding of the importance of local government, and encourage better communication between local people and their councils. We therefore make recommendations in our Report, first to the Electoral Commission to run a public information campaign about government in Wales, and how local authorities fit into that structure; and secondly to local authorities themselves about

improving local peoples', particularly young peoples', understanding of what councils and councillors are doing in each area to improve the local quality of life. Councils should also have well-established and publicised procedures for receiving and giving proper consideration to petitions from local people.

We believe that more needs to be done to provide information which might encourage people actually to vote. We recommend that better information is provided for young people on the practical aspects of voting, and we also propose that the "freepost" facility is extended to local elections so that local voters can receive more information from local candidates about themselves and their policies. We consider it very important that barriers to voting are removed wherever possible; this is particularly relevant for disabled people, and we recommend that authorities should be required to prepare and implement elections accessibility strategies to provide disabled people with facilities for voting to the standard which other voters rightly expect. We also believe that the time has come to reduce the age at which individuals become entitled to vote in local (and so National Assembly) elections to 16, and we recommend that the law is changed accordingly.

Various things can be done to make it easier to vote in local elections. We recommend extending the voting hours for such elections to bring them into line with those which apply in parliamentary and Assembly elections. We ask the Electoral Commission to review the arrangements for postal voting so that people can use that facility more easily. We also recommend Welsh local authorities to begin considering now what innovative voting methods, particularly those using new technology, could be introduced for the next round of local elections in 2004. We are however opposed to any suggestion for introducing compulsory voting.

We need more people in Wales to offer themselves for local elected public service. A particular consideration here is the need for a more diverse set of

people to serve on local councils, to enrich local democracy with their different experiences and priorities. Although political parties have a key role in bringing forward candidates, they are not monopoly providers and we believe that local councils and the Welsh Assembly Government also have roles to play in encouraging a wider range of people to offer themselves as candidates. We make recommendations on the action which those bodies should take to achieve this, and we also recommend that town and community councils should be encouraged to advertise for individuals to offer themselves when co-option of members is being considered.

We are concerned that it appears very difficult to reconcile local authority membership with full-time employment. We make recommendations aimed at easing this difficulty, including more generous paid leave by public sector employers for employees wishing to undertake council service; encouragement to private sector employers to publish their policies on allowing employees time off for public service; and examination of the possibility of compensating private and voluntary sector employers for allowing their employees time off for council service. We believe that the Wales Charter for Councillors promulgated by the Welsh Local Government Association ought to command general support, and we recommend the Assembly Government to consult with interested bodies to see how it can be given full effect.

We also make recommendations on technical changes which could usefully be introduced to encourage more people to offer themselves for election. Fewer signatures should be required in support of candidatures, nomination forms should be more easily available and returnable, and the minimum age for candidates should be reduced from 21 to 18.

We were asked to consider whether First Past The Post (FPTP) should be retained as the electoral system for local elections in Wales, or whether it should

be replaced by some other system. Our recommendations on this represent the views of seven of the Commissioners; two take a different view.

We all consider that the new political management structures in our local authorities require strong checks and balances if they are to work effectively, and the electoral system must be able to produce members capable of providing these. The system must at the very least not discourage voters from turning out to vote, and should if possible produce more contested elections. It must allow for effective representation of local people by members identified with particular parts of an authority's area (and allow for non-party members to be elected if local people want that). The majority of us also believe that the system must be one which makes it more likely that the authority will in its membership reflect both the community's diversity of opinion and the diversity of local people and their different life experiences.

We tested seven electoral systems against these criteria. No one system can be said to satisfy each criterion fully, but the majority of Commissioners concluded that the Single Transferable Vote (STV) form of Proportional Representation is best suited to meeting the varying demands that local people make of the local electoral system. STV enables a diversity of opinion to be represented (and so provide checks and balances) in the council chamber by locally-elected councillors identified with particular electoral divisions. Each such division should normally elect between three and five members, and this should encourage parties to put forward slates of candidates reflecting the diversity of local populations, but it would not prevent non-party candidates being elected if they had sufficient local support. We believe that such a system will both reduce the number of uncontested seats and encourage more voters to use their votes, as there will be many fewer "safe seats"; we reject any suggestion that asking voters

to mark their ballot papers in order of preference (ranking candidates 1,2,3,4, etc.) as STV requires should cause voters confusion and dissuade them from voting.

The majority of Commissioners therefore recommend that the STV system should be introduced in time for the local government elections in 2008; before then there will need to be legislation in Parliament to introduce the system, and the Local Government Boundary Commission for Wales will have to review the existing local electoral boundaries and recommend new ones for the multi-member divisions which STV requires.

Two Commissioners believe that local authorities in Wales should continue to be elected using the First Past the Post (FPTP) electoral system, but they consider that electoral boundaries should be changed so that each electoral division elects one member only to the relevant council; multi-member divisions would be abolished. They believe that these arrangements would provide clearer and stronger accountability in local government, and achieve a direct link between local electors in an area and an individual councillor.

We all finally recommend that the existing broad pattern of councillor numbers in each authority should be retained; that local government elections should be held every four years, in different years from National Assembly elections; and that such elections should be conducted on a whole-council basis, with all members of councils elected on the same day.

## **Appendix 2**

### **A New Vision for Local Government in Zimbabwe**

The Zimbabwe situation and need for reform is based on on similar circumstances found in Jamaica. It should be noted however, that regardless of the most elaborate development plans put in place for Local Government Reform, unabated corruption will always bring these efforts to zero. For the past 20 years local government has undergone significant changes under different National Development Plans. More recently the objectives of local government have been shifting as a result of the government's public sector reform programme. Most of these changes have not achieved the desired results in terms of achieving an improvement of resident's living conditions. National development plans have not been adequately focussed on the improvement of local government and rampant corruption has reduced local authorities to mere organs of a partisan political state. As a consequence of political control and corruption most local authorities are insolvent, under direct control of the Ministry and are failing to deliver efficient services to local residents.

Zimbabwe needed a new vision of *local governance*. The vision should be aimed at establishing more effective local government institutions with an appropriate composition, better relations with central government and improved communication channels. The functions of local authorities, as well as the provision of adequate human and financial resources must be addressed. The necessary legal changes should be established to facilitate realisation of the vision.

### **Objectives of Local Government**

One of the main objectives of local government in Zimbabwe should be to promote wider citizens' participation in government through democratic processes and structures. At the same time, it is an objective of local government to provide essential services to the communities they serve, on a cost-effective basis.

In pursuing the above objective, local authorities are established in law as ‘planning authorities’ with a responsibility for providing public services and infrastructure. To facilitate the provision of such services, local authorities require a sustainable revenue base and the means to regulate the conduct of individuals and organisations in their jurisdiction within the limits of national legislation.

(Care should be taken not to undermine this objective through partisan political processes. Therefore local government should as far as possible be divorced from party politics.)

### **A Vision for Local Government**

The MDC is committed to the maintenance of a sound system of local government in Zimbabwe. This will consist of semi-autonomous statutory local authorities, elected by the local population and legally responsible for the planning and implementation of specific government functions within the areas for which they have jurisdiction. The MDC vision for local government is of local corporate bodies which are subservient to national policies and the constitution and which represent government at grassroots and are responsible for the provision of services and infrastructure at local level.

Local authorities represent a lower-tier level of government. Their establishment in terms of an act of parliament recognises the fact that the needs of the people can only be attended to, in full, if the people are given responsibility for the development of their respective areas. Local authorities consist of two arms: an elected decision making council – i.e. councillors; and an executive – i.e. council staff.

## **Proposals for Implementation**

At present there are twenty-five (25) urban and fifty-seven (57) rural local authorities. The majority of these are under varying degrees of suspension or under the direct administration of the Ministry as a result of mismanagement or corruption. The following proposals would be implemented by an MDC government to correct this situation: -

### **Local Authority Restructuring**

Local government boards should be elected by the people who fund their activities. Voting rights for local government elections should therefore be restricted to ratepayers in any given local authority area. To ensure an adequate level of council debate and administration, minimum qualifications should be set for councillors who should be required to reside in the areas they represent. All councillors should be self-reliant members of the local area who wish to serve their people. While councillors should receive allowances and expenses for their work, they should not look to being a councillor as a formal job with a salary. Local government authorities should revert to the previous system of ceremonial mayors and should clearly differentiate between the roles of councillors and council staff.

In the larger cities the local authority would be made more manageable by establishing smaller 'boards' within 'greater' councils (e.g. Harare). Such local boards would remain part of the city administration but would be responsible for local services and would be funded from the main council administration for the city.

Most local authorities are currently overstuffed and staff are under-utilised. Every local authority will be required to restructure its council in line with the above principles and then hold fresh elections. The new authorities will be required to

employ consultants to review the staffing requirements for each council and to make recommendations on restructuring and staff remuneration policies. This exercise would include the establishment of minimum qualifications for the different posts in the administration of each local authority.

### **Traditional Leaders and Sub-District Structures**

The importance of traditional leadership as part of our heritage must be emphasised.

There is however, a need to balance issues of democracy and good governance, tradition and culture, tradition and politics: and to rationalise the existence of village assemblies, ward assemblies, village development committees and ward development committees.

Since their inception VIDCOs at village level have exacerbated bureaucracy at the grassroots in rural areas. In combination with the traditional leadership there are now more rulers than the ruled. One way to overcome this problem is to abolish VIDCOs in favour of village assemblies in rural areas.

The urban equivalent of the village assembly would be resident's associations and neighbourhood groups. These would work with council districts or boards within the 'greater' local authority, where necessary.

The Traditional Leadership Act needs re-examination, focussing, among other things on: -

1. The question of the allocation of land. For communal areas, in view of the 'titled' or confirmed land tenure system advocated in the land reform programme, only local authorities should be empowered to allocate land.

The role of traditional leaders must be restricted to vetting of applications and confirmation to the Rural District Councils. They would also be used to resolve local land disputes.

2. Traditional leaders and the operation of customary courts; This should be the subject of proposals for legislative reform.
3. Payment of traditional leaders; It is recommended that no gratuities and pensions be paid to traditional leaders, including village heads.

Co-operation between traditional leaderships and local democratic structures must be emphasised to avoid undermining any aspect of local administration.

### **The Provincial Councils and Administration Act**

This Act should be repealed in the light of other proposals for state machinery reform. Provincial Development Committees and Provincial Councils have largely been ineffective and do not necessarily add value to issues at national or sub-national level. The post of Provincial Governors is superfluous because the Provincial Administrator, who is not politically appointed, effectively covers the requirement of government for a provincial administration structure.

There is currently no overall supervisor to ensure that district functions are implemented as planned by urban and rural councils as well by central government departments working at local level. A major problem currently, is that all ministry provincial heads are deemed to be equal at this level. There is need for an overseer at this level as functions are decentralised to all local authorities. Provincial administrators should therefore be elevated above the provincial ministry heads of staff so that they can effectively co-ordinate all efforts within the province and convene meetings of a developmental nature. The Provincial Administrator will be answerable to the Minister of Local Government.

## **Local Authorities and Decentralisation**

Because of gross inefficiency at the national level in terms of the implementation of development in local authorities, realistic decentralisation of state functions should be carried out. The functions of the provision of education, health, social welfare, roads and other infrastructure services, currently undertaken at central level need to be decentralised to local authorities using the principle of subsidiarity. This is in line with the MDC vision of people's participation in 'own' development. It ensures that democracy is guided to create an enabling framework for achieving residents' aspirations in terms of good living conditions and the provision and maintenance of infrastructure.

A strong, efficient and effective system of local government can only mean a smaller civil service that focuses on the core functions of setting standards (policy and legal) and monitoring the operations of local authorities. Local authorities will be required to decentralise themselves and to transfer to the private sector those functions that are best performed by that sector.

However, it should be recognised that not all sectors can be decentralised. Trunk services should be preserved for national/central government implementation and maintenance. Such services would be delineated through statutory instruments.

## **A National Decentralisation Programme**

The transfer of functions has to be carried out cautiously and incrementally taking into account the capacities of local authorities, and the availability of resources. A programme of decentralisation must take account of the service levels and standards to be maintained while empowering local institutions to take over the provision of such services. Therefore decentralisation, de-regulation and privatisation of service provision to local areas must be *a process, not an event!* The current capacity building co-ordinating committee has not been an effective tool to drive the decentralisation programme due to inter-ministry competition for

resources at the expense of local authorities. A national programme for decentralisation of functions to local levels should be placed in a high profile office such as the President's Office to ensure that the principle is applied in all government ministries. This office would define and co-ordinate the functional decentralisation processes, guided by cabinet.

### **Local Authorities' Resource Base**

Local authority resource base should be established from three sources;

- i. Own source revenue base (i.e. unit taxes, service charges, rates)
- ii. Transfers from the national treasury
- iii. Capital funding from commercial enterprises, borrowing from the open market without sovereign guarantees and grant funding from bilateral aid.

An expanded 'own source' revenue base should be established for *all* local authorities, incorporating both rural and urban councils. Each council should retain the existing revenue base with additional sources from land/natural resources. A full list of local authority income sources under category (i) should be developed as a next step.

Fiscal transfers from centre to local authorities should be established in law.

Statutory instruments would empower local authorities to bid for funds from the treasury and to be accountable in the same manner as the government ministries.

Current arrangements of reimbursements to local authorities through sector ministries have been unsatisfactory, leading to much corruption and leakage's in the system.

Local authority access to treasury funding should be supported by strict guidelines on staff recruitment, monitoring of council by the ministry of local government, the crucial issue of qualification of councillors, division of responsibilities of the traditional leadership.

Other issues to be considered are;

1. No transfer of functions without the transfer of resources. Whatever functions are transferred to a local authority they should be accompanied by the transfer of adequate resources. The dumping of functions (without requisite resources) will only lead to the further deterioration of services and infrastructure.
2. Where government funds are less than the value of the service to be provided by the council, the council should be allowed to charge a fee to make up the difference.
3. Local authorities must be allowed to exploit natural resources within their areas of jurisdiction and make use of the resources locally.
4. Where there are inadequate local resources to meet requirements, central government should provide equalisation grants.
5. Government agencies, which have been commercialised, or privatised should be required to pay local tax to the local authorities.
6. Under no circumstances should central government compete with local authorities for any given tax base, e.g. a land tax. Right from the beginning, it must be understood that there are only two taxing authorities, and their areas must be delineated and understood.
7. Local authorities should have access to land for expansion and development. State land should be excised and handed over for utilisation by local authorities to facilitate this process.

All local authority capital funding must be based on credit worthiness rating of each local authority. Each local authority must strive to become sufficiently credit worthy to support its own capital requirements. Sector specific funds from other sources e.g. the Road Fund, Water Resources Fund, Natural Resources, etc should

be allocated on the basis of the credit worthiness eligibility criteria, with equalisation grants only for basic infrastructure in special cases.

### **Role of the Ministry of Local Government**

Like all other ministries, the size of the ministry of local government will be reviewed in the light of its envisaged role. The current housing component is technical in nature and will be either outsourced or disbanded, as all housing will in future be the responsibility of the private sector working in tandem with local authorities. The ministry will focus on local government issues with respect to setting up and monitoring the implementation of policy and legislation. This will include the administrative, financial and other issues concerned with local government administration. The Minister of Local Government will retain the right under the act to suspend and dismiss local government councillors and executives within stipulated parameters. The ministry will also supervise the audit functions of local authorities although these will all be outsourced under ministry supervision.

The Ministry of Local Government should comprise of three departments namely:

- i. A Local Authority Inspectorate charged with the responsibility for establishing standards, regulating, promoting, supervising and discipline of urban and rural councils.
- ii. A Financial Advisory Unit for regulating local authority financial management, audit enforcement and maintaining statutory instruments governing local authority access to revenue from the national fiscus.
- iii. An administration department for the administration and control of assets, personnel and financial management and accounting.

Special projects units may be set up from time to time to undertake such time-bound activities e.g. local authority capacity building, co-ordination of specific

national projects and delivery of trunk services, or emergency interventions. Housing will be a major thrust for an MDC government, with responsibility for undertaking housing schemes being assigned to local authorities who will in turn, contract private sector firms to undertake the planning and execution of all such schemes.

## **Appendix 3**

### **Citizen Participation and Local Accountability: Examples of Good (and Bad) Practice in Kenya.**

In common with many other countries, Kenya has been reforming its system of local government. The main aim of the reform has been to strengthen the capacity of local authorities (LAs) to deliver services to its residents. The very weak financial position of LAs has been considerably strengthened in the past two or three years as a result of the transfers made through the Local Authority Transfer Fund (LATF). But real and lasting improvements will only happen if LAs involve their residents in decisions about how resources are used, and are accountable to their citizens for those decisions. In the past, both of these aspects have been very weak in LAs in Kenya, raising questions about whether LAs are making good use of their resources, both LATF transfers and their own local revenues. But things are changing, and this briefing note seeks to highlight some examples of good practice, as well as noting cases of bad practice.

This note is based on a comparative study of current practices of decision-making (informal as well as formal) about the use of resources in local authorities in Kenya and Uganda. The study looked at who participates in those decisions and how, and how far local governments are accountable to citizens for their decisions. The study examined seven LAs:

Mombasa Municipal Council

Maragua County Council

Mavoko Municipal Council

Narok County Council

Nyahururu Municipal Council

Nyeri Municipal Council

Oi Kalou Town Council

This note seeks to identify examples of ‘good practice’. We recognise that the term ‘good practice’ is problematic in any context, since there are always aspects which are less than perfect. We do not claim universal applicability or transferability of the examples. Rather, we outline some examples of where and how local governments and citizens in Kenya appear to have implemented relatively successful practices to extend citizen participation and enhance accountability in decision-making about resource use.

## **2. Decision-making in Local Government**

The idealised model of representative democracy in local government suggests that, through regular, free and competitive elections, citizens make known their needs and priorities. The councillors they elect then formulate strategies, make key decisions and prioritise expenditure choices through formal policy and budgetary processes, with officials (who are politically neutral) advising them and implementing the decisions.

The reality is generally rather different. Whilst local elections in Kenya are held regularly, and are generally free and fair, issues are highly aggregated, with candidates rarely presenting clear manifestos or choices.

Together with the fact that elections are held only once in five years, this means that local needs, priorities and choices are not identified through the electoral process in sufficient detail for the purposes of planning and budgeting.

Meanwhile, councillors are often poorly equipped to formulate strategies or make key choices, but instead tend to intervene on an ad hoc basis, often at the implementation stage. As a result, there is distrust between officials and councillors, with officials driving the agenda, and both sides accusing the other of vested interests and malpractice. In practice, much decision-making is informal, while formally approved budgets are often not adhered to because of the lack of financial resources.

***How do councillors know what are the needs and priorities of local citizens?***

Given the limitation of the electoral process, a fundamental question is how do those elected know what are the needs and priorities of their constituents. The answer can be caricatured through the responses we received from the Councillors and citizens / community groups we interviewed:

Councillors say:

“We know our people” (but which ones do they know?)

“We meet them all the time” (but often indirectly, through agents, with no formal system of consultation)

“We hold meetings” (although these are rare in practice, and Councillors usually depend on DC Chiefs to hold *barazas*)

“They come to our houses” (but people come to ask for individual favours, not communal needs,

which is what the LA is there to provide)

Citizens / community groups say:

“We never see our Councillor, except perhaps at election time”

“We don’t even know who our councillor is!”

“Vote-buying is common: people feel obliged to vote for those who have paid them”

“We have no way of telling who is a good candidate”

“We do not have any influence, especially when told there is no money or equipment”.

However, the situation is not all gloom: there are signs of changing attitudes, as illustrated in some of the case studies in this briefing paper.

### **3. Financial Resources**

Kenyan local authorities (LAs) face serious financial problems for a number of reasons:

local own revenue sources are limited: although the Single Business Permit has increased local

revenues, LASC has been abolished and the full potential of the property tax is not utilized until the introduction of LATF, central government provided no grants - and it even fails to pay its obligations in the form of the Contribution in lieu of Rates (CILOR)

LAs fail to collect the revenue due: in many cases less than half of the potential revenue is collected,

and LATF may be having a negative effect on the incentive to collect

taxpayers are often unwilling to pay because the LAs provide hardly any services enforcement action against tax defaulters is difficult and expensive

meanwhile, LAs spend most of their money on personnel (partly due to over-staffing) and councilor allowances, with little left for operations, maintenance or

capital investment extensive corruption drains available resources many LAs (including some of the richest!) have huge debts.

As a result, many LAs have substantial deficits – in reality, even if not shown in the approved budget.

Expenditure management is often simply crisis management – staving off creditors. In most LAs, few services are actually delivered, and despite the rhetoric of the PRSP, little attempt is made to direct the available resources to addressing poverty.

Many of these problems are caused by the structural imbalance between expenditure needs and resource availability at the local level, but other problems are attributable to the failings of LAs themselves.

For example, in almost all LAs, there is a huge gap between the formally approved budget and what actually happens. This is mainly because revenues are forecast unrealistically, in order to show a balanced budget whilst accommodating the many demands from councillors. The forecasted revenues cannot then be collected, so the LA soon runs short of money. In order for the LA to survive, the Treasurer effectively operates a “shadow budget”, deciding what will really be done with the money actually available. Since most of the available resources are already committed, to salaries and councillor allowances, little else from the original budget is implemented. What little decision-making discretion is left to the Town/County Clerk, Treasurer and senior councillors, operating on an ad hoc basis. Treasurers defend themselves by saying: “There is no money”. The real issue, though, is “What was done with the money there was?”

### ***Potential impact of LATF***

The Local Authority Transfer Fund (LATF), introduced in 1999/2000, transfers 5% of income tax to LAs, through a transparent formula. It is provided as a block grant to finance local service delivery, particularly for the poor.

For a few LAs (mainly the biggest cities), LATF does not represent much in the way of increased resources for services, because of the loss of LASC, and/or their huge debt overhang. For most LAs, though, LATF represents a significant increase in resources, over which real expenditure choices can be made. Some LAs are making good use of these additional resources, but others – perhaps many - appear not to be.

The questions are:

how are decisions about the use of additional resources being made and by whom?

to what extent do ordinary citizens, and particularly the poor, participate in reaching those decisions?

to what extent do the resulting expenditure choices reflect the needs, priorities and interests of citizens, including the poor?

how accountable is the LA for the pattern of expenditures which actually results?

### **Citizen Participation**

As in every society, elected, representative democracy needs to be complemented by mechanisms of citizen

participation, to enable those elected to gauge better what are the needs and priorities of citizens, as well as to create a sense of ownership on the part of citizens of the services provided by government.

However, in Kenya, there has never been a strong tradition of citizen participation in local government. The Local Government Act makes no reference to citizen participation, and the style of local government is very traditional, with elected councillors deciding everything behind closed doors. In addition, many LAs are

very large and therefore remote from citizens. Sadly, some councillors perceive citizen participation as a threat to their autonomy and position.

But there is a mood of change in Kenya, for a number of reasons:

the growth of civil society and community organisations (in Kenya, as elsewhere)  
the role of LA Community Development staff, and NGOs, in helping communities to organise and establish community-based organisations (CBOs)

donors like GTZ and DFID, which have emphasised participation over many years  
the LADP, process promoted by the Ministry of Local Government with the support of GTZ, has involved a degree of citizen participation, and in some places this has started to change attitudes towards stakeholders

more recently, the requirement to produce a Local Authority Service Delivery Action Plan (LASDAP) has obliged LAs to identify community organisations in their locality, to consult them about priorities for the use of resources, and to provide information to citizens. In the first round, all except one LA managed to produce a LASDAP. Nationally, some 1,050 public meetings were held, involving 30,000 people. It seems that this process has resulted in a shift in priorities from what officers and Councillors want (vehicles, equipment, offices) towards things which citizens want (wells, clinics, drainage).

The following boxes provide some positive examples of change. Of course, we have to be cautious about calling them “good practice”, since there are many elements which are far from good. But these examples, nevertheless, present positive features from which others can learn.

### ***Changing Attitudes in Ol Kalou Town Council***

Ol Kalou Town Council covers a small town and surrounding rural area in central Kenya. It has benefited over the years from considerable technical assistance from the Small Town Development Programme (STDP).

One element of that was the production of a Local Authority Development Plan (LADP). The first LADP was produced largely by external consultants with little citizen participation. But the second, produced in 1999, involved extensive participation by local organisations. This was a turning point in the relationship between the Council and community organisations, from one in which local residents regarded the Council “as a foreign body”, to one of partnership. The Council started to regard community organisations as “stakeholders” rather than “enemies”, and to involve them in setting priorities for the Council. Nor were those involved just the elite: they included women market traders, *jua kali* artisans, and residents from the low-income resettlement area.

The provision of additional resources through LATF clearly helped, since it meant that, for the first time, there were real resources available for capital spending and improvement of service delivery. At the initiative of the Acting Treasurer, part of the LATF money was allocated to each ward, and Councillors, together with Community Development staff, held ward level meetings to discuss how these resources should be used.

The projects which were prioritised included repair of bridges, provision of water tanks and pipes, health centres and school equipment. The Council also responded to local residents’ initiatives in improving local access roads through voluntary labour by providing the Council’s tractor to deliver stones. In several cases, the Council was able to respond to needs of local communities through making land available: to extend the resettlement area to permit lower density of housing, to provide sites for *jua kali* artisans, and to relocate the market.

In Mombasa, too, attitudes have been changing. Kenya’s second largest city, with a population approaching a million, has huge financial problems, serious urban poverty and a history of corruption and political conflict.

There have been a number of catalysts for change, including the DFID-funded PAMNUP project, which is seeking to develop a participatory approach to poverty reduction. The Council's Community Development staff have been active in assisting low-income communities to establish CBOs both for mutual self-help and to lobby the Council and other organisations for improved services. There is now a regular forum for dialogue between the Council and community organisations in the city. Small but significant improvements have been achieved. The Kenya Street Traders Society has also been active in helping street-traders to organise, lobby for their rights and resolve conflicts. This has resulted in a considerable improvement in relations between the traders and the Council, from one of conflict to one of collaboration (although there appears to have been a set-back recently as a result of politically-instigated demolition of street traders' premises).

The recent LASDAP preparation was able to build on this basis. 19 ward-level meetings were held in January 2002, with around 400 people attending in total, representing different sections of the community. Each ward meeting was invited to prioritise four projects to a total value of KSh 2 million: these included, amongst others, road improvements, nursery schools, garbage containers and drainage. The critical event in Nyeri was the construction of the new (Soko Mjinga) market in 1995, largely funded from the World Bank KUTIP project. This project required the active participation of the Market Association as stakeholders, who had to contribute part of the cost. Although the process was slow, it did give those concerned a feeling of involvement in the work of the Council. Following this, other lobby groups were formed to work with the Council on future developments. The Council has murramed some roads, improved drainage, and put up some street lights and footbridges, in response to lobbying from such groups. However, the Council lacks the resources to meet most of the demands. Formal consultation over

budget priorities has been mainly with the business community, e.g. the Chamber of Commerce.

Nyuhururu Municipal Council, like most LAs in Kenya, was reluctant to consider wider participation in decision-making. Even though there had been limited stakeholder involvement in the preparation of the LADP in 1999, further participation was not encouraged. This was partly because the Council lacked the resources to implement the projects included in the LADP, and partly because those wishing to participate were perceived as being “politically motivated”. It was only when a group of mainly business interests, calling itself the Task Force, demonstrated against the Council for its poor services and high level of SBP, and subsequently took the Council to court to prevent it collecting SBP, that things started to change. The (new) Mayor persuaded the Task Force to have the injunction lifted by agreeing to work with them and other community groups on the management of the Council. Since then, there has been a much more positive atmosphere, particularly in relation to the preparation of the Council’s LASDAP.

One of the most notable examples of good practice in the preparation of a LASDAP was Maragua County Council. Although, as elsewhere, there had been no tradition of citizen participation in Maragua, the newly appointed County Clerk, together with the Chairman and Councillors, took up the opportunity of preparing a LASDAP with enthusiasm. Not only was Maragua the first LA to submit its LASDAP – several months before the deadline – but they also carried out a participatory process which was substantially greater than the minimum requirement specified in the Ministry Circular. 206 community organisations were identified, posters advertising the process were placed in 132 locations, 56 local meetings were held for awareness raising and initial identification of projects, and

12 ward-level meetings were held to prioritise projects, attended by around 250 people. Each ward was allocated KSh 0.5 million. Prioritised projects included bridge construction, rehabilitation of wells, health centres and medical equipment, feeder roads and construction of Chief's camp. The main criticism is that, although these projects spread benefits widely, many were allocated amounts too small to be useful.

The key to the process seems to have been the enthusiasm of the key people involved, and the good working relations between the Clerk and the Chairperson. Councillors were also enthusiastic once they saw that the process enabled them to get closer to their electors.

Participation in many LAs has been much less extensive and effective:

most LAs lack staff skilled in participatory techniques and processes, and Community Development departments generally have very limited resources participation is still often dominated by elite groups, and not all CBOs are representative, especially of the poor (e.g. some of the residents groups in elite areas of Nairobi) many communities / CBOs remain unaware of LATF and LASDAP, and have limited capacity to demand engagement with and accountability from their LA under LASDAP, LAs still control who is invited to participate, and some have used that to exclude individuals and groups whom they do not favour use of LATF money for ward level projects can become a form patronage by councillors, and in some LAs there is no proper accountability for money allocated in this way while some attempts have been made to identify and engage disadvantaged groups (e.g. *jua kali*), many remain excluded for various reasons

the process of engagement can lead to co-option, with the result that community leaders become alienated from those they claim to represent, and cease to be

accountable although women predominate in many CBOs, there are very few women councilors.

business interests are often the most powerful voice, and have increasingly resorted to the courts in their disputes with LAs (e.g. over SBP) some LAs are squandering their land resources as political payoffs or corruption the emphasis on projects has often been without an adequate, integrated planning framework participation is costly, both for the LAs and for citizens, and particularly the poor; because of mistrust and apathy, many people are often unwilling to participate.

Uganda has adopted a radical model of local governance, with five levels, providing multiple opportunities for participation and election, including by poor, and with reservation of seats for women, youth and disabled.

With substantial resources flowing through the system, particularly as a result of the HIPC debt-reduction programme, there is scope for participation in real choices over resource use. The Local Government Development Programme (LGDP), in particular, gives local communities real choices about projects from within a menu of options (schools, clinics, water supplies, roads, production, etc.). However, many of the same problems apply as in Kenya: failure to collect local revenue, corruption and misuse of resources, lack of trust between officials and councillors, councillors focused on private benefits, and participatory processes which are not as participatory as they appear on paper.

It is one thing to invite citizens to participate and to identify their priorities, but it is another matter to account to them for the decisions made and the way resources have actually been used. The parlous state of most LAs' finances may have been an excuse for failing to deliver services in the past, but the additional resources from LATF make that less convincing. If LAs fail to deliver tangible results, people will quickly become disillusioned with participating.

Performance of LAs varies widely. Some clearly are managing to improve service delivery and undertake new projects identified as priorities by citizens like road repairs, bridges, water supplies, drainage, market improvements, street lighting. Others are struggling with past debts, reducing their efforts to collect local revenues because of the easier money from LATF, employing ever more staff, increasing councillor allowances, and opting for projects with little or no benefit to citizens (new vehicles, especially for the Mayor, extensions to council offices, dubious income-generating projects).

Accountability has three aspects, all of which are relatively weak in Kenya:

Horizontal: accountability between officers and elected councillors

Vertical downwards: the council's and elected councillors' accountability to citizens

Vertical upwards: the council's accountability to central government.

there is a general lack of transparency over decisions and actual use of resources  
 there is a profound distrust between officials and councillors in most LAs, each accusing the other of malpractice councillors complain of not being provided with information, of council decisions not being implemented, and of officers not being accountable, e.g. for budget implementation ! councillors also accuse officers of secrecy, obstruction and corruption, and complain that corrupt officers are simply moved by the Ministry to different LAs officers often regard councillors as ill-educated and so unable to understand policy choices or read a budget (although officers rarely seem to make serious efforts to engage councillors in strategic decision-making) officers accuse councillors of being interested only in their direct benefits (allowances, corrupt awarding of tenders, appointment of staff), and of not following due procedures officers in some LAs see the LASDAP process as a way of holding councillors to account.

there has been no tradition of reporting back to citizens on the work of the council a lack of transparency and a tradition of secrecy, with budgets not being publicly available, and accounts not being produced, never mind audited (until now); “the council operates like a casino” was a comment of one citizen although full council meetings are open to public, key decisions are usually made in closed meetings almost all LAs have failed until recently to produce accounts, let alone have them audited although some LAs put some information on their notice boards, this is often not in a form which can be readily understood, and few people are aware of it the media can play an important role in building local accountability, although much media reporting in Kenya lacks proper investigation; local radio potentially offers opportunities for local accountability through on-air discussions between Mayors or officials and citizens, but this has yet to really take off (as it has in Uganda) courts are potentially another mechanism of accountability, although they tend to be used by the better off (e.g. business organisations protesting about tax rates), and courts do not provide a satisfactory means of resolving complex issues. Given the weakness of downward accountability, upward accountability is crucial; but in practice that has also been weak, mainly because of the ineffectiveness of the Ministry of Local Government: serious delays in budget approval; approval of unrealistic budgets; and inspections which seem to be regarded as rent-seeking opportunities the Ministry also seems unwilling or unable to take decisive action when LAs transgress regulations or where officers or councillors act corruptly. Mombasa Municipal Council is attempting to make its revenue forecasts more realistic, so that its budgets more accurately reflect the resources available, thereby avoiding having to make arbitrary cuts through intransparent processes during the year. This should help to increase local accountability. However, the Council’s huge debt overhang can easily upset the fine balance, since creditors can obtain court orders for immediate payment out of the current year’s income. Politically-

motivated decisions to hire additional staff can also derail the budget, as happened in 2000.

In 1999, the then Mayor of Mombasa called a public meeting to discuss the work of the Council. This was well attended and well received, but the initiative died when the Mayor resigned.

Mavoko Municipal Council, with assistance from the Kenya Local Government Reform Programme, has installed a computerised financial information system which links its revenue receipts to the preparation of accounts and reports. As a result, the Council was among the first LAs to submit its budget in the new format and to produce (using external accountants) its abstract of accounts for auditing. The Local Authority Transfer Fund requirements for publication of information is helping to build local accountability:

- national publication in the press of LATF allocations and allocation formula
- local publicising of available resources (local revenues plus LATF) as part of the LASDAP process
- local publicising of both the planned and actual use of resources.

The LASDAP process, by informing citizens of the resources available and involving them in prioritization of expenditures, helps to build local accountability for actual resource use, since those who have participated can be expected to demand to know what actually happened to the money.

LATF also requires, as a condition for part of the transfer, that LAs produce abstracts of accounts for auditing.

Until this year, hardly any LAs were producing accounts; now, as a result of LATF conditions, all except one LA have produced abstracts of accounts and submitted them to the Controller and Auditor-General. However, it remains to be seen whether there is the capacity for these accounts to be properly audited.

LATF has also introduced other performance requirements, such as timely submission of budgets, preparation of debt reduction plans, and payment of statutory creditors, all of which should help to increase local accountability. But there are questions about the capacity to monitor these and check their veracity, and about the long-term sustainability and effectiveness of these requirements. NGOs can play a vital role in helping to build local accountability. In Narok County Council, World Vision has played a valuable role in checking on all funded projects, involving local councillors in project planning meetings with local communities and in tours of the jurisdiction, providing training for councillors including a visit to another council to see good practice, and working with councillors on an action plan to improve the council's operations.

Local elections are a key element of downward accountability. On the positive side, local council elections are held at regular intervals, generally take place peacefully, with competing candidates, and quite high turnouts in some places, for example 88% in Nyeri MC and 81% in Ol Kalou TC, in the last local government elections.

But turnout is much lower in some other places (Mombasa MC: 42%; Mavoko: 50%), while long-term domination by one party prevents effective competition in some places (in Narok CC, 30 out of 41 wards were unopposed in the last election). Relatively few councillors seem to get re-elected, suggesting a degree of public dissatisfaction. Those who do get re-elected time after time tend to be those who are well connected and well resourced. Central government nomination of some councillors undermines local accountability.

“Vote buying” seems to be standard practice, with between KSh 20 to 50 (and even KSh 100) being widely quoted. There are also allegations of vote-rigging in some places.

Voter turnout figures vary quite substantially between wards (e.g. in Mombasa, between 15% and 57%, in Nyeri between 56% and 98%). Of course, high voter turnout does not necessarily mean voter satisfaction –it could mean dissatisfaction combined with a perceived ability to change things or it could indicate failures in the voter registration system. However, there does appear to be something of a correlation between voter turnout figures in the sample of LAs studied and the levels of satisfaction or dissatisfaction expressed by citizens and community organisations.

Vote-buying has a pernicious effect. Quite apart from the effect on electoral outcomes, it means that candidates require substantial funds for their campaigns. Thus, their primary concern, once elected, is to secure financial benefits from the council, whether through higher allowances or corrupt manipulation of tenders, contracts or jobs for their supporters, in order to recoup their outlay. Since many are not re-elected, they may see their term as a councillor as their only opportunity to recoup these costs.

There are signs that voters are becoming more aware, and realising that, with secret ballots, they do not need to vote for those who paid them. The more this happens, the less effective vote buying will be. The Electoral Commission is working hard to undermine the practice of vote-buying, and using publicity material to encourage voters to use more appropriate criteria when deciding whom to vote for. Unfortunately, the credibility of the Electoral Commission may be somewhat undermined by its use of local chiefs, widely associated with the ruling party, as the instruments to convey its message.

Uganda suffers from many of the same weaknesses in the area of local accountability, including abuses of the electoral system. However, it has gone rather further in developing sustainable mechanisms of upward and downward accountability. In relation to the former, there is an elaborate set of performance

indicators applied by the central Project Management Unit to decide whether a local council is entitled to additional funding (or any funding at all). These indicators relate to technical capacity, accounting, project monitoring, communication of information, co-financing, etc., and are not without their problems in practice. In terms of downward accountability, local councils and institutions such as schools and clinics are required to publicise information about the level of resources being made available to that unit, thereby enabling local citizens to ask questions about what happened to the money. In addition, Project Management Committees elected at the local level monitor the implementation of projects, thereby holding council officials accountable for project implementation and the use of money.

Practices of citizen participation and local government accountability vary widely between local authorities in Kenya. Although in most cases they remain quite weak, there are signs of change.

Much seems to depend on local leadership - both councillors and officers (including some Treasurers, Works Officers and Community Development staff) – and in some cases local chiefs. Individuals make a difference: in those places which seem to be performing best, it is usually possible to identify one key person, or a small group, who are committed to reform and good practice, and who are able to work effectively with others.

But in many places there remain serious problems of bad relationships, conflict, lack of trust, corruption, opportunism, rent-seeking, and poor use – or misuse – of resources.

There is a significant window of opportunity, with the LATF, to develop a more open, participatory and accountable system that delivers real service improvements for citizens. But if accountability for resource use is not improved, and results are

not delivered, citizens – as voters, taxpayers and participants – are likely to become increasingly cynical and alienated.

## **Appendix 4**

### **Local Government Decision Making: Uganda**

Uganda has been a leading exponent of decentralisation. Over the past fifteen years, the system of local government has been radically reformed, major responsibilities have been delegated and substantial resources transferred to local councils. Although the reform process has sought to strengthen both citizen participation and local government accountability, there are still significant concerns over these issues. As a result, there are always questions about whether local governments are making good use of the resources at their disposal, and whether the decisions made represent the interests and needs of their residents. Practices vary, with plenty of examples of good practice, as well as many which are not.

This briefing paper is based on a study of the practices of decision-making (informal as well as formal) about the use of resources in local governments in Uganda. The study looked at who participates in those decisions and how far local governments are accountable to citizens for their decisions. The study examined seven local councils:

- Entebbe Municipal Council
- Fort Portal Municipal Council
- Jinja Municipal Council
- Kasanje Sub-County Council
- Lira Municipal Council

Masaka Municipal Council

Mukono Town Council.

This paper seeks to draw out from these case studies examples of ‘good practice’. We recognise that the term ‘good practice’ is problematic in any context, since it is always possible to identify weaknesses in any practice. We do not claim universal applicability or transferability of the examples. Rather, we outline some examples of where and how local governments and citizens in Uganda appear to have implemented relatively successful practices to extend citizen participation and enhance accountability in decision-making about resource use.

## **2. Legal and Financial Relationships**

There is a constitutional commitment to democracy at every level of the system of Local Councils (LCs) in Uganda. Decisions flow upwards from village (LC1), with checks and balances between the levels specified in the Local Government Act, 1997. This system provides multiple opportunities for citizen participation and representation, from village level up to municipal and district levels. Reserved seats for women, youth and disabled at each level ensure that different sections of society are represented.

While central transfers have increased rapidly in recent years, local own revenues have been static or even declining. Local revenue collection is weak, and has been deteriorating in most places, particularly as a result of the politicisation of the main revenue source, GPT. In Mukono Town Council, for example, less than half of the projected revenue was collected. The council has embarked on several initiatives to strengthen revenue collection, such as updating resident and tax registers with the active involvement of the village councils, and monitoring and inspecting revenue sources, as well as holding sensitisation seminars. In Fort Portal, the Municipal Council introduced pre-printed GPT tickets to reduce the incidence of fraud,

tendered the collection of assessment rates, and changed the tenderer for the taxi and bus park, all of which led to increased revenue collections.

The growth in resources available from the centre has been mainly in the form of conditional grants related to the delivery of services such as health and education. These benefit local citizens including the poor.

Central government grants like Universal Primary Education (UPE) and School Facility Grants (SFG), are allocated on the basis of enrolment and special needs, to combat familiar problems of poor supply of scholastic materials, inadequate classroom space, and generally inadequate funding. The early results of this initiative are encouraging, with increases in the number of pupils obtaining first grade results.

The increase in conditional transfers has been dramatic. In Masaka Municipal Council, for example, resources from the centre increased fourfold in just three years, although unconditional grants have remained static.

The conditional grants have been useful in reaching targeted objectives and involving citizens to some degree in decision making over their specific use (see section 3). Particularly important among these has been the Local Government Development Programme (LGDP) The central government has also sought to enhance local accountability by making information about these allocations available to citizens .

### ***Local Government Development Programme (LGDP)***

The current Development Programme (DDP) and similar programmes funded by the World Bank. Under the LGDP, funds are provided to districts and municipalities for local level infrastructure. Choices are made at the local level (LC1/LC2), from a menu of options including schools, clinics, water supplies, toilets, roads and production projects. Whilst there are limitations on the use of money, the scope for choice is quite wide.

Since money is available, people perceive that they are participating in real choices about projects which will be implemented. Project design and implementation is carried out by district, municipal or divisional staff, supervised by Project Management Committees drawn from the LC1/LC2 Executives, together with local councillors.

LGDP conditions require the use of local labour and contractors, in order to maximise local benefits. Local communities are required to contribute 10% of the project costs, which can come from their share of local tax revenues, and to commit themselves to maintenance. Over the past two to three years, large amounts of local infrastructure have been completed, benefiting many, particularly the poor. LGDP also includes an element for building local capacity, through workshops etc., including training councillors and local communities in project monitoring.

Entebbe Municipal Council was one of the first local government recipients to benefit from the LGDP, for the specific purpose of micro-development projects. The GOU guaranteed this grant from DANIDA which in turn signed an agreement with Entebbe in 1999/2000 to provide its funding over three phases. Completed projects include roads, water extensions, toilet construction and purchase of waste skips.

### ***Conditional Grants in Kasanje Sub-County***

Central government remits various grants through the district to the lower councils. Most of these grants are conditional and are earmarked to specific spending. For example, the sub-county cannot pay for office accommodation from the Local Government Development Programme grant. Rather, this money has been used in the construction of classrooms, roads, pit latrines, a cattle crush and dispensaries. Some schools have received desks, and teachers' houses have been built.

Projects that have been agreed at village and parish level are now able to be included in the Local Government Development Fund allocations. This is visible proof that the central government is committed to the active participation of citizens in the decisions which affect them, as well as to local development and the improvement of the quality of life of the ordinary person.

### **Participation in Decision-Making**

The multi-level LC system offers multiple opportunities for participation and election. It extends elected representation to the village level (LC1), through ward/parish (LC2) and division (LC3), to municipal level (LC4) and up to the district (LC5). Citizens have ample opportunity to participate in the political process through voting and by competing in the electoral process. Under Uganda's Movement system, any individual can, without reference to a political party, stand for any elective office, on the principle of "individual merit".

Elections for reserved seats for women, youth, and the disabled are through electoral colleges.

There is movement up the LC system, with village leaders aspiring to move up to LC3 and LC4, while many of the current incumbents at LC4 and 5 started their political engagement as lower level councillors. The system brings government physically closer to its citizens. In Jinja for example, the Market Traders Association asserted that it used to be difficult to go to the municipality partly because the Municipality had a lot to deal with, whereas now the divisions are much closer and have a better understanding of their needs. This does not, however, always translate into their needs being better met. The downside of the system is the intense competition in urban areas between divisions (LC3) and the municipality (LC4) for the limited amount of political space and resources, resulting in conflicts and inadequate funding particularly for the municipality.

But it seems clear that the LC system offers a closer and more engaged relationship between government and citizens, with people now being more willing than before to speak out, although many are still fearful of the consequences of doing so.

Monthly meetings of all citizens are supposed to take place at village level, although how often they actually take place depends on the local political situation and the issues to be discussed, as well as on the motivation of the leadership to convene and publicise the meetings. Through such meetings, citizens have opportunities to raise issues and make proposals at village level, which are then taken up to higher levels for funding.

Since some funding is available, at least for basic infrastructure, some of these identified priorities are implemented.

### ***Budget Conferences***

The 1997 Local Government Act requires each level to begin its budget process with a budget conference which is open to the public. The municipal and division budget conferences formulate proposals for resource use for the next financial year, as well as for the three-year rolling

The budget conference allows for direct accountability for lack of achievements in the previous budget year. In the words of the Town Clerk, ‘it has helped to put houses in order’. This also enables discussions about problems with tax collections, and provides space for citizens to voice criticism of government.

### ***Civil Society***

Civil society is often viewed as the institutional solution to people-centred, pro-poor development. There are many small CBOs and NGOs working in Uganda, but generally these are concerned with specific local issues or needs and do not have experience of working with government or in lobbying for change. In Jinja, for

example, there are 110 women's groups. The Jinja Municipality Women's Association co-ordinates the activities of this network. These small groups organise mainly around economic activities such as handicrafts, pottery, distilleries and agriculture. The association puts project proposals to donors on behalf of these groups with the aim of establishing a revolving fund.

There is a deliberate effort in many local areas to encourage women to form themselves into groups and elect leaders from among themselves. These women leaders later use this experience to gain confidence to compete for political office in the various local governments. The point is that economic empowerment leads to other forms of empowerment, including political.

### ***Consultation with Civil Society Organisations in Entebbe***

Business leaders are regularly consulted when government grants are disbursed. In Entebbe, the Kitooro United Traders Association is regularly consulted on issues of relevance to them, for example, the planning of a new market. Both the Chairperson of that division and the Mayor of Entebbe have adopted a policy cooptation and cooperation with major civil society organisations, which in turn entrenches their support amongst the members of these organisations.

A number of civil organisations have formed in response to harsh treatment by tenderers awarded contracts to collect taxes. The Entebbe Division B *Boda-Boda* Association (EDIBBA) has a membership of more than 300. They formed an association because of problems with the then tenderers who, they allege, siphoned off huge sums money from them without providing tangible benefits. Now each bicycle owner pays Shs. 50 per day while for the motor cycles they pay Shs. 200 per day to EDIBBA, which in turn is expected to pay Shs. 200,000 per month to the division.

## **Accountability to Citizens**

Ugandans, it seems, are becoming more aware of what they are entitled to as rights and not charity. The result is increased demands for accountability from government, not just for finances but also for political decisions and policy choices. This accountability needs to be both formal (procedures and records) and substantive (truth, honesty, etc.). Accountability can be seen in three overlapping ways:

Vertical downward accountability: elected council/councillors to citizens

Horizontal accountability: officers to elected councillors

Vertical upward accountability: local councils to higher levels/central government.

In the Ugandan system, accountability should also work vertically downwards between different levels of government, so that higher levels are held to account by lower levels. Little evidence of this form of accountability was found, but as lower councils become more organised, the potential is there for this to develop.

### ***Downward accountability***

Regular, free and fair elections are the key to holding Mayors, Chairpersons and councillors to account. In principle, elections result in those who have not performed being ousted, although in practice electors are often influenced by other factors (ethnic loyalty, the responsiveness of those elected to social obligations, as well as “vote-buying”), rather than by the real performance of the candidate in delivering services and improving conditions locally.

Until recently, LC1 elections used the “stand-in-line” system, but this has been replaced by secret ballots in order to reduce the scope for pressure and intimidation. The evidence is mixed about the level of electoral participation. In many places it appears to be high, particularly at village level, with people talking about elections in terms of ‘people’s power’. But there are also signs that electoral

turnout is on the decline, perhaps reflecting both a weariness with politics and an absence of pressure for change.

### ***Holding Councillors to Account***

In Jinja, there was a case last year where a female councillor claimed money from the local fund for a women's netball rally, which did not happen. People complained but the financial year was up and other issues took over. This year the same woman took money from the LC3 for repairs to machines, which also did not happen. She is not standing again for election this year as people have made it clear she is not wanted.

The women's association thought that this happened partly because not all councillors are aware of their roles.

However, elections held every few years are an imperfect mechanism of ongoing accountability. Increased interaction between citizens and their local governments seems to have occurred by way of the LC system and specific mechanisms to increase communication. At budget conferences it seems people are increasingly willing to speak out and challenge their leaders. There is generally a positive feeling from people who have attended budget conferences that they provide an opportunity for accountability on project implementation.

The media is becoming increasingly important both for informing citizens about available resources and for channelling complaints about local councils. The central government has made progress in providing information about the resources flowing through the grant system, enabling citizens to start holding councils to account. Thus, School Management Committees are informed by the centre about the amount of money available for their school, so that they can ensure that the money is transferred, and can hold the head-teacher to account for its use. Similarly, those operating clinics are told how much money has been allocated, so that local officials cannot pretend that the money is not there. Project

Management Committees are told how much money has been allocated for their project, and they then work with the technical staff of the municipality to supervise the contractor, ensuring that money is spent properly and the project completed satisfactorily. In these ways, accountability is starting to be developed, at least in relation to the conditional grants. However the form in which information is provided, mostly through English-language national newspapers and circulars pinned on notice boards is often not accessible to ordinary citizens.

The liberalisation of the airwaves has also helped extend the debate on local accountability (Uganda has one of the most liberalised radio policies in the world, with nearly 100 private stations having been given permits to operate in the last five years). Radio phone-ins have had an important impact across Uganda. In Masaka, there are now two privately owned FM radio stations, and citizens can participate in lively discussions on local issues. In Fort Portal, a local, popular and widely listened to radio station is the Voice of Toro (VOT).

Broadcasting mainly in the local language, Rutooro, VOT has become the main source of local information.

Fort Portal Municipal Council communicates to its citizens through VOT and holds a once monthly programme to report back to the citizens on its activities. Citizens can phone in and interact with the leadership – asking questions, seeking clarifications and expressing grievances. Nor is access limited to those who have mobile/cell phones, since others will borrow phones in order to put their views, while many others listen.

### ***Radio Phone-In – Accountability in Jinja***

Use of the media has had an impact in Jinja despite the fact that there is no local radio station. One example of citizens holding local councils to account involved a national radio phone-in. The Mayor went on to CBS radio show where he was

pushed to answer a question on *boda-boda* rates. He denied that he had responsibility for setting their rates and claimed on air that LC3 had responsibility for both collecting and setting rates.

Unfortunately for the Mayor, many people had heard his response. As a result the *boda-boda* drivers demanded lower rates from the LC3. The LC3 council met and decided that the Mayor had indeed given them the green light to reduce *boda-boda* rates. They reduced the rate from US\$ 4,500 per month to US\$ 2,000. When the LC4 would not agree to this change, the *boda-boda* started demonstrating, which lasted five days. The District Committee convened a conference in the end and a balance was struck of US\$ 2,500. The LC3 convinced the *boda-boda* to accept this and discontinue their strike.

Typically, there are differences in the motivations of councillors. Some see their role as a way to make their living, including corruptly exploiting the opportunities available, rather than as a public service to their constituents. However, increased engagement among citizens is bringing increased demands for local accountability. The capacity building element of LGDP has provided sensitisation workshops for many different groups including councillors, tenderers, *boda-boda* drivers, and community groups, covering issues such as project monitoring.

***Horizontal accountability:***

There are many problems of horizontal accountability. These arise from, amongst other things, poor working relationships between officials and councillors, conflicts between elected representatives at the different levels, the lack of qualified finance staff, and the difficulty and cost of dismissing surplus staff. In Jinja, the Mayor has put in a number of measures to tighten up management, including holding weekly planning meetings with the Town Clerk and Treasurer to identify problems before they escalate. A sub-committee of the Finance Committee meets every two weeks to look at how the council is doing and where it is failing.

One mechanism for horizontal accountability is the Project Management Committee elected at the local level to monitor the implementation of local projects by officials of the municipal or divisional council.

School Management Committees carry out the same function in the case of education projects. Councillors are also involved in monitoring the work of officials. However, there is always the risk that monitoring turns into meddling in the management of council's activities, often for dubious reasons. In the Adyel Division of Lira Municipality, complaints were raised about the lack of information from the Municipality about education and health budgets for projects at the division level.

***Upward accountability:***

New instruments of accountability have been developed, including external auditing, Local Public Accounts Committees (PACs), the Inspectorate General of Government (IGG), and the Ministry of Ethics and Integrity.

IGG can investigate possible cases of malpractice. In Masaka, for example, the IGG investigated the disputed tendering process in relation to the central taxi park. However, there are problems of detection, proof, prosecution and punishment, as well as imperfect personnel within those agencies, lack of resources and lack of political will at the top, all reduce the impact of these arrangements.

External audit acts as a check up on how resources are being utilised. In addition to monthly returns submitted by sub-counties to the district, external auditing can happen any time. But people in Kasanje Sub-County complained that the auditors from the district go out to lunch with the officials whom they are auditing, thereby compromising their position. Despite this concern, auditors can advise on proper accounting procedures, which helps since some of the accounting personnel at the local government level lack knowledge of the financial rules and regulations.

### *Central Monitoring of the Use of Funds*

The Project Management Unit (PMU) of the Ministry of Local Government has developed a set of performance measures concerning the use of funds by local government, particularly in relation to the LGDP. The criteria used include the following:

- quality of development plans
- development expenditures related to national priority areas for poverty reduction
- timely implementation and accountability
- capacity-building efforts
- staff functional capacity
- tendering capacity and performance
- production of monitoring reports
- co-financing of projects.

The PMU's assessment manual spells out detailed indicators for each criterion. Assessment is carried out by a national team, together with staff of the districts/municipalities in the case of assessment of lower level councils. Only those councils which meet the minimum conditions are able to access funds, while those that perform well are rewarded with additional funds.

Given the number of local councils, the task is enormous, and there will always be problems of verification.

But the assessment is taken seriously and results are published.

Apart from a few "sensitisation" and "orientation" workshops that are offered from the centre, both district and municipal officials observed that there was hardly any forum or opportunity for them to discuss matters affecting their relationship with the centre. In the past, this was made worse by the poor telephone communications

in outlying areas, although this has improved markedly with the advent of mobile phones.

One particular aspect of vertical accountability concerns the use of funds by lower level councils. While the municipal and division councils have been allocated responsibilities in law, the parish and village councils can legally use their share of local resources in whatever manner they wish. There are no accounting guidelines for this level, so this money can easily be pocketed. To avoid misuse, some municipal councils retain the LC1/LC2 shares of local revenue to set against their contribution to local projects. Jinja Municipal Council has identified a number of responsibilities that are devolved to the lower councils.

### ***LC to LC Relationships and Improved Accountability in Jinja Municipality***

Despite the potential for improved local accountability, the multiplicity of levels of government means scope for duplication of responsibilities, and hence increased costs. Relationships between division and municipality are particularly tricky, with conflicts over political space and resources. By contrast with many other municipalities, arrangements appear to be working quite well in Jinja, where the LC3 and LC4 councils have worked to clarify their responsibilities and working relationships. At the lower levels, a political organ has formed between LC1, 2 and 3. This Inter-Council meeting is used to review and discuss various issues.

People have participated in large numbers (over 200 people). LC3 Chairpersons are aware that there is a need for explanation at the local level regarding various issues and development needs. Accordingly, they claim, they attend all LC1 meetings in their jurisdiction. This procedure has evolved in response to mistakes, notably over the location of a clinic, which was based on external decisions rather than consultation with local people, resulting in the clinic not being built until the community was better engaged. According to divisional councillors, in the past,

the Municipal Council used to prioritise expenditure just to the immediate and better known area of Central Division; now that divisions have been given their own powers, this kind of practice cannot happen.

The law does not attach responsibilities for resource spending at the lower councils, which provides opportunities for abuse. In Jinja, they have agreed that a maximum of 15% of LC1 income can be spent on allowances for meetings. The rest is tightly managed and allocated only for certain works, for which the LC1 has had responsibility assigned. These tasks include sweeping roads within the village, trimming verges and opening small drains. The divisions hold a ledger and village money is kept within the divisional account.

Villages need to fill out an application and show meeting minutes where discussion has taken place. Expenses are only then released after verification by the Environment Officer, who may deduct from the claim if the job is not done properly. This system was developed after some bad experiences with money disappearing, and has been in practice for one year. Some money is also available for limited other uses, such as refreshments for community events. Other tasks are the responsibility of the division.

Increased resources and management responsibility at the local level do seem to have increased engagement in local development, as well as providing local employment. In addition, village councils are better able to check on the implementation of work locally than when the work was done by central government or the district. People are beginning to see things as their rights, associated with paying taxes, and not just gifts from the government for which they should be grateful regardless of what state it arrives in. As one LC1 Chairperson noted, people see what is on the ground and will complain to him if the work is done badly.

## **Conclusion**

Decentralisation reforms in Uganda, together with substantial transfers from the centre, has meant that citizens have real opportunities to participate in real decisions about projects, with the real prospect that these will be implemented. The LGDP is a good example of providing people from the village level up to the municipality and district with a range of options for projects with real benefits for low income groups.

However, a number of challenges remain. Effective decision-making on allocation of resources is still made at the centre, and local councils have limited influence in determining what resources go to which priority areas. In addition, participation in practice is less than it might appear from the law, with village meetings being held less often than required, budget conferences attracting few who are not already involved in the system, and processes still dominated by the better off and better educated. The process is also still predominantly technocratic. Whilst there is a growing feeling of local ownership of local development process, there are also worrying signs of participation-fatigue and declining participation in local elections and local level development activities.

Civil society organisations can and do play an important role in advocating for prioritisation of poor people's needs, but they remain relatively weak at the local level. Investment is needed to develop the capacity of such organisations to become effective vehicles for promoting change.

People are becoming increasingly willing to speak out, and accountability is beginning to be built. Publication of information, local monitoring of project implementation, the use of local radio, and the central government's system of monitoring of the use of funds, are all helping to build accountability. But there remain serious problems of misuse of funds, abuse of public office and distrust between officials and councillors and between levels. Much remains to be done to build a really effective system of local accountability.

## Appendix 5

### **Local government reform in Australia and its implications for management and labour**

This study of the development and implementation of local government reform and its implications for labour and management is undertaken in two ways. First we review the relevant literature with a view to highlighting changes in the organisation of work and management of employees and the implications of these changes for service delivery. Second, the discussion focuses on local government reform in Victoria, and in particular in one inner urban local government area. The case study council was itself the creation of the 'reform' process having been created by the merger of two former local government areas and part of a third. In this part of the study we draw extensively in the views of employees and management to provide a critical account of CCT.

In the United Kingdom, Australia, and New Zealand, the process of local government 'reform' has tended to focus on the extension of arrangements for contracting out, with a similar but less formal process occurring in North America. In New Zealand, as in Australia, the growth in outsourcing has been noted, though, with the exception of Victoria, there is no comprehensive binding requirement to market test service provision [Boston 1996, Evatt Research Centre 1990]. In New Zealand, the *Local Government Act* 1989 requires local authorities in making

decisions about service provision to give ‘due consideration to the advantages and disadvantages of different delivery options. Significantly, there has been a marked increase in contracting out in local government since the late 1980s so that approximately a quarter of all services are now delivered exclusively by council departments [Boston 1996].

In the United Kingdom there has been a rapid expansion of the range of services subjected to competitive tendering following the enactment of the *Local Government Act 1988*. [Parker 1990] This has had ‘far-reaching implications for the role and direction of local government, unions, the livelihood of thousands of non-manual workers and for the forms of management of a wide range of local authority services’ [McIntosh and Broderick 1996]. One study [LGIU 1994, 13] describes the changes as creating a contract culture which has led to local authority workers ‘being employed in new ways and to cuts in jobs and hours. DSO employees are expected to work with greater flexibility imposed, often less certainty and security, and increasingly on a similar basis to the private sector’. Indeed, pressures to create competitive bids have led to substitution of full-time employees with part timers and other measures to cut costs while the indirect effect has been the decentralisation of bargaining and a fragmentation of union power [Fairbrother, Moore and Poynter, 1996; Foster 1993].

The process of public sector reform in Australia commenced in the 1980s at the federal level, gradually percolating through to state and local governments. During the 1990s there has been considerable discussion of the issue of local government reform, though progress has been modest with the notable exception of the state of Victoria where a conservative coalition elected in 1992 implemented a series of major changes. These ‘reforms’ include a freeze on local government rates,

amalgamation of councils and the introduction of compulsory competitive tendering [CCT]. Together these changes have had profound and continuing implications for local government in Victoria in terms of the delivery of services, governance, management of labour, and industrial relations.

In this paper we provide an account of the changes to local government in Victoria focusing on the introduction of CCT and distinguishing it from the processes of the same name undertaken in the United Kingdom. Of course contracting out is not new to local government; what was new in Victoria was the mandatory market testing of council services, a development necessitating councils reorganising service delivery to create discrete business units. Within those business units typically a fundamental reorganisation of the work process and redesign of jobs was undertaken in order to enable the in-house teams to compete against possible bids from the private and not-for-profit sectors.

The changes to local government in Victoria were implemented through an intermediary, the Local Government Board which was created with the specific remit of assisting the government in streamlining and making efficient this sector. According to Kiss [1997], the ‘nearest thing to a blueprint guiding the work of the Local Government Board came to the government’ from the work of the Tasman Institute, a neo-liberal think tank funded by a group of employer associations and corporations to engage in public policy advocacy [Fairbrother, Svensen & Teicher 1997]. In its *Project Victoria* the Tasman Institute produced a blueprint for reform in the form of a series of reports covering areas including ports, local government, and the power industry. As Moore [cited in Kiss 1997], the architect of *Project Victoria* explained:

In the case of local government, the initiative for undertaking the analysis derived importantly from complaints by business about the poor quality service being provided and the fastest increase in rates...[Moore 1996]

Significantly, the government embraced the logic and much of the content of the reports and implemented a program of reforms primarily premised on the interests of local business rather than the local community.

The implications of the reforms are explored through a case study of one of the 82 local government areas. While this is not representative of all councils it yields valuable insights into the changes to the changes to the labour process and management of labour in the metropolitan area where the bulk of the state's population is located. Among the major findings are the following:

- This case was a little unusual in that not one tender had been won by an external contractor.
- The introduction of team based working has been a major outcome of the reforms. While the workers exhibit greater autonomy at a formal level they do so within the severe constraints of the specifications of the tender.
- Workers and the community have expressed dissatisfaction at the deterioration in the quality of the service provided. This was clearly articulated as a loss in job satisfaction because of the imperative to 'cut corners'.

- Predictably there was a loss of pay and conditions as workers in business units constructed tenders but a shift to temporary workers was not a feature of the changes.
- Unions sustained some membership losses and the union's credibility was compromised by not opposing CCT but attempting to preserve as many jobs as possible.

.While there has been an improvement in relations between workers and line managers, now styled as contract managers, senior management and councillors do not seem to grasp the fact that they can no longer expect the same degree of responsiveness that existed before CCT created clear and unyielding contract and job specifications.

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