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*The Medina in Tunis – Dominique Logeais – AFD – R.R.*

## Decentralization and urban development

The facts are well-known: in to twenty and twenty-five years time, the world's urban dwellers will number five billion, thus accounting for 60 per cent of the total population. The major part of future demographic growth will take place in developing cities: over one generation, the number of urban dwellers will increase by more than a billion in Asia and 400 million in Africa. The considerable investment requirements generated by this unprecedented growth add to all the other areas where Africa has already so much to catch up such as infrastructure, essential services, the environment, the housing and urban management. Moreover, from the institutional standpoint, it is obvious that the trend towards decentralization promoted since the 1970s by the United Nations and the international community has grown and continues to spread across all continents. Even if decentralization takes on different forms depending on national contexts, ranging from mere devolution to a real delegation of powers, local authorities are expected to become major development actors in developing countries as they have already in the developed world. Central governments are faced by enormous and growing financial and organizational requirements in their traditional sectors of responsibility (education, health, environment, transport infrastructure, energy,

etc.) which are difficult to fully fund. At the same time, there is a structural tendency for these States to discharge a number of responsibilities to local authorities, particularly in the social sectors. For these reasons, it seems inevitable that the local and regional authorities of developing countries should ultimately become important actors on the finance market and, more generally, take on ever greater responsibilities. This new paradigm raises issues for the donor community which will be called on to work more directly with local authorities, in particular by entrusting them with management of the urban development projects which they finance. This is the choice the AFD made several years ago, based on its experience of the direct funding of local and regional authorities acquired in the French Overseas Territories and on its dense network of local representation, acting whenever possible in the context of partnerships between a local authority from the North and the local authority which is benefiting from its assistance. ■

**Jean-Michel Severino**

*Managing director of the French Development Agency*

# Supporting the growing power of local authorities

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*Urban development in action - new roads and new housing in the Kim Lien District of Hanoi*

Decentralization takes many different forms in different countries. All these forms seem to share the objective of improving efficiency in the economic and social aspects of local development. However, a set of conditions must be met in order to achieve this objective: there must be no doubt that the local authorities have the appropriate remits, they must possess the necessary resources or be able to raise them, have access to funding and have the necessary know-how and human resources to implement investment programmes. We must accept that the local authorities in developing countries rarely meet all these conditions. In many cases, the reforms do not result in the resource transfers which correspond to the new remits entrusted to the local authorities. This also applies in some developed countries where governments aim to transfer the maximum load onto local authorities while ex-

pecting the latter to reduce their expenditure. In countries where decentralization is recent, the resources of local authorities are still mainly derived from direct local taxation even if the most sophisticated systems have set up grants and tax equalization measures. As a consequence, the investment capacities of local authorities are still low, or in some cases, among those of medium or small size, non-existent. This is one of the paradoxes of the situation which applies almost everywhere: local authorities, from which more and more is expected, do not receive a proportionate increase in their resources and have very little latitude for increasing the resources they have.

This situation has arisen partly because the transfers of resources which accompany transfers of responsibilities are insufficient, but also, and more fundamentally, because of the nature of the responsibilities which

are transferred. Transfers of responsibilities involve areas where it is most unlikely that any revenue will be obtained and where, conversely, much expenditure is required (waste, street lighting, social services, etc.), while the responsibilities that are likely to generate revenue (land-use planning, electricity distribution) frequently remain under the control of national offices or government departments, urban roads which could potentially be tolled belong to the national or provincial network, major transport facilities (ports, airports) are autonomous or managed by chambers of commerce, etc.

On another level, the generalized phenomena of urban sprawl and the expansion of large conurbations beyond their initial administrative boundaries is particularly deleterious to the effectiveness of management and financial resources. When there is no city-wide structure, or alternatively when

there is a coordinating body but one without resources or the ability to raise taxes, (which are incidentally difficult to put in place), the fragmentation of responsibilities – leads to a gradual loss of legitimacy on the part of local authorities: which body has legitimacy for scheduling, planning, coordinating and borrowing? – In some cases, we may then witness the return of central government, at a devolved level, presented as essential for maintaining the overall coherence ... the cost being that the original local authorities lose their financial autonomy.

In addition, donors are not all the devoted allies of local authorities. A certain conception of decentralization originating in a semantic slide towards community development, has led certain projects to favour district actions, the involvement of civil society and implementation in the field by the associational

fabric. This tendency coexists with the common practice of creating competition with central government by using executing agencies which increase the speed of disbursement, in particular because their status means they are not subject to the rules of public contracts. An arrangement of this type short-circuits the legitimate local authority: at best, the latter will be consulted about the use of international funding, at worst it will learn after the event that such and such an investment is under way. Most frequently, it will watch the financial flows pass by as a mere onlooker, without the investments in question appearing in its budget (which will, however, probably

have to fund the subsequent operating costs).

In view of the large diversity that affects decentralization in different countries, a strategy to support the increasing power of local authorities must take a variety of forms and apply different methods. It would be wrong to think that this support involves an exclusive focus on supporting local authorities themselves. In many cases, the process of decentralization is far from complete and providing assistance to central government can be extremely useful in such essential areas as the transfer of responsibilities and resources, the devolution and decentralization of taxation and the management

of public finances. Issues of metropolitan government also involve institutional engineering and reforms at national level. Other issues interfere with public policies in specific sectors (infrastructure, environment, banks and finance, etc...). For example, the financial autonomy of local authorities will remain an empty concept without the conditions of the existence of a genuine market for local authority finance at local or regional level. It is apparent that increasing the power of local authorities involves actions of a variety of types at distinct levels in the hierarchy of local authorities or in the administrative organization and that it is not without impacts on the links

between the public and private spheres.

The articles which follow present some examples of support that has been provided to the decentralization process and to some of the local authorities financed by the AFD in recent years. These projects relate to varied institutional environments and different levels of intervention, they implement measures and tools which are as varied as training plans, urban contracts, intermunicipal cooperation procedures and partnerships of a new type with European local authorities. This is the result of a pragmatic approach to their design which ruled out dogmatic and standardized solutions. ■

## Tunisia: Municipal contracts as a device for managing — and responsabilizing municipalities

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*More than 70% of Tunisia is urbanized and the country possesses a dense and compact network of cities in its relatively small area. Some of these are financed by the Local Authority Loan and Support Fund (CPSCF) which was set up in 1902. The CPSCF is a financially autonomous public body managed by the Ministry of the Interior and Local Development with the responsibility of providing local authorities with the loans they require to finance investment. In addition, it is the State operator for implementing subsidies<sup>1</sup>.*

The CPSCF has been assisted by the French Development Agency (AFD) and the World Bank for a considerable length of time, and in particular received five successive lines of credit from the AFD be-

tween 1994 and 2004 for a total amount of 147.2 million Euros. The local authority funding sector in Tunisia therefore has well established and effective institutions. Successive loans taken out by municipalities,

although possessing many qualities, have however created major financial management difficulties for some of them. Consequently, and subsequent to the decisions made by the President at the 2002 National Municipali-

ties Conference – relating in particular to improving the monitoring of local finances – the Ministry for the Interior and Local Development (MIDL) undertook, in the framework of the municipal sector plan (PSM) that has been running since 2004 and is cofinanced by the AFD and the World Bank, a programme to bring about a recovery in the finances of those municipalities in difficulty (during the 10th plan [2002-2006], 132 of the 264 Tunisian municipalities were considered to be in this situation).



In addition to financing local investments, the PSM has also enabled contracts to be signed in order to bring about a recovery in municipal finances. Mobilizing municipal resources, rationalizing expenditure, taking appropriate measures with regard to debt and improving the organization of municipal services are central to this process.

### **The recovery of municipalities in difficulty: a process in which contracts are used for managing and increasing levels of responsibilities**

In 2006, as a result of strong mobilization on the part of central administrations, the services of the governorate and the municipalities involved, and the project co-ordination unit, the first 53 restructuring contracts were signed. A second phase of contract creation for the remaining municipalities got underway at the end of 2006.

A sign of the consolidation of the political will to bring about the financial recovery of the municipalities in difficulty was the announcement, at the last National Conference of Municipalities (March 2007), of the creation of a national

commission responsible for ensuring appropriate management quality indicators and financial sustainability, by limiting municipal debt and increasing municipal revenue.

### **The restructuring contract: from diagnosis to an action plan - a process in several stages**

#### **Diagnosis**

At the start of the PSM, an initial phase of diagnosis involved financial and organizational audits (resource management, project scheduling, etc.) of the municipalities in difficulty. The results of these audits were used when developing the financial recovery plans.

#### **A financial recovery plan and the creation of contracts**

The financial recovery contracts – to which the plans are appended – run for five years and are signed by the governor of the region who is a representative of the State, and the Chairman of the Municipal Council. They may be revised annually. The contracts specify the commitments made by both parties, those of the municipality essentially relating to the mobilization of resources, the rationaliza-

tion of expenditure, savings, debt reduction, and those of the State to providing support for the mobilization of resources, the organization of services and the implementation of the financial recovery plan. The success of these plans depends on strong synergy between the decisions taken at national level, the objectives fixed for local central government departments, and, in particular, municipal financial revenue, and the work required from municipal departments and elected officials.

#### **Implementation: the action plans**

At the same time as the financial recovery plan is prepared, it is important to plan its implementation, in view of the limited resources at the disposal of many of the municipalities that are in difficulty.

The municipal Secretary Generals play an important role in this preparatory work. These are the Council chairmen's most important collaborators and are responsible for preparing the implementation of the action plans adopted by the elected officials. Moreover, they guarantee that the government's instructions are correctly applied and have

the authority to prepare the action plans in close collaboration with the relevant government departments.

The action plans thus identify, from an operational perspective, the priority actions, tasks and responsibilities and the necessary resources, in particular as regards technical assistance.

#### **The system for monitoring financial recovery**

The monitoring system covers all levels of decentralization: (i) mobilizing the financial and administrative commission in order to monitor financial recovery within the municipal council; (ii) setting up monitoring committees within each governorate and coordinating with the national monitoring committee; and (iii) managing the programme of the PSM coordination unit at the MIDL.

This system is strengthened by a specific training plan within the CFAD (training and decentralization support centre) which includes, in particular, the organization of regular workshops for Secretary Generals. ■

*1. In some cases local authorities may provide some internal funding.*

## **Benin: Supporting intercommunality and creating a city structure in Cotonou**

*Guillaume Josse (AFD), Mathias Gbedan, Mayor of Sémé-Podji, Liamidi Houenou de Bravo, Mayor of Abomey-Calavi and Nicéphore Soglo, Mayor of Cotonou*

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*The municipal territory of Cotonou is today completely urbanized. A result of this is the creation of an urban conurbation whose functional space (the urban continuum) does not correspond to the institutional space (three municipalities). It is therefore necessary to find more flexible and effective ways of managing the problems which are posed at the metropolitan level and which cannot be resolved within each commune.*

Like other coastal cities in the Gulf of Guinea, Cotonou has developed within a limited area, between a lagoon to the north and the sea to the south. The

communal territory is today completely urbanized and the geographical and urban configuration means that its growth must now take place in the two neighbouring municipalities of Abomey-Calavi to the west and Sèmè-Podji to the east. Consequently, these two rural municipalities have in a few years become suburban, and currently house one third of the conurbation's population. Abomey-Calavi has a population of more than 350,000, making it the country's second largest city, having experienced annual growth of 12.5 percent in the last fifteen years! This growth has occurred without the corresponding public investment. Abomey-Calavi is therefore an archetype of uncontrolled urbanization with an almost non-existent road network and public facilities, a municipal administration which lacks resources, including basic maps. The situation is exactly the same in Sèmè-Podji, although its growth is more recent. The result has been the creation of an urban conurbation whose functional space (the urban continuum) does not coincide with the institutional space (the three communes). The emergence of this "metropolis" of Cotonou poses problems of three major types for elected officials: (1) the

management of urban service at conurbation level (in particular waste and public transport), (2) the development of a physical planning strategy and (3) the creation of a political space for consultation.

This situation provided the backdrop for the Cotonou city support programme (P A A C O),

which was launched in early 2006. The AFD wished to help elected representatives in this city-level process of dialogue by stepping outside the eternal legal and technical questions related to intercommunality. The hope is as follows: by selecting a small number of concrete issues and supporting the elected officials and their services, with no obligation for success, awareness of the need for cooperation between the three municipalities and appropriate technical and institutional solutions will emerge.

In the area of urban planning, Cities Alliance is supporting the three municipi-



*The motorcycle taxis or "zémidjans", at present the main form of public transport in the conurbation of Cotonou*

palities in their concerted drafting of a city development strategy. The questions which arise are difficult but urgently require responses: prohibiting the urbanization of vulnerable zones (the shores of the lagoon, coastal zones, forests, etc.), fostering the densification of the existing urban fabric and reserving land for facilities.

While the application of urban planning law is a municipal responsibility, urban planning involves the intercommunal level. The three municipalities are interdependent with regard to their future development: the management of waste,

travel and the provision of business facilities, for example, are all issues which compel the municipalities to work together.

With regard to intercommunal management, in order to support the PAACO project, the urban community of the metropolis of Lille has agreed to assist the AFD and the municipalities. It will act within the framework of a tripartite agreement with the AFD and the three municipalities. Senior officials from Lille will be involved in supporting tasks, at a rhythm to be agreed with the municipalities in Benin. They will play a double role

## **An example of "sub-sovereign" finance: a direct loan to the municipality of Ouagadougou**

The municipality of Ouagadougou approached the French Development Agency for a loan to finance the reconstruction of the central market which was destroyed by fire in 2003 and the renovation of some suburban markets. The finance was adjusted to suit the lifespan and mode of amortization of this type of facility. The loan is at a variable rate of interest and, as it is 186 base points below the Euribor rate and runs over a period of twenty years of which five are deferred, it can be considered to be highly preferential. The

amount and terms of this assistance have been determined so as not to compromise the municipality's subsequent capacities: a subsidy was required in order to complete the finance plan. The profits of the municipal corporation that manages market facilities finance an investment fund and the payment of a user licence fee to the city. This licence fee, which is of the same order of magnitude as each loan repayment is intended to compensate for the charge of the debt within the municipal budget.

in this connection: presenting their experience with regard to intercommunality and advising officials with a view to setting up the beginnings of city level power. Thus, thanks to the project, the mayors are involved in discussions and negotiations and are advancing along the difficult path towards intercommunal cooperation. Their departments are working together and make a number of operational decisions to do with the advancement of the project together: the organization of the project's steering committee, the joint purchase of equipment, training, the management of the technical assistance made available by the project ... in addition, of course, to

the meetings that take place during the visits from the Lille Urban Community. The intercommunal process has progressed furthest in the area of urban transport. The conurbation of Cotonou has no organized public transport, either private or municipal. This area is dominated by scooter-taxis known as "zémidjans", which now number more than one hundred thousand. These two-wheelers are highly competitive as they are inexpensive and provide "on-demand" services but they pose major problems to society in terms of air pollution, road safety, congestion and attacks. The elected officials have made a priority of this issue: in many ways, the situation

is becoming unbearable and they have realized that it can only be dealt with at intercommunal level. With the help of the experts from Lille, the executives from Benin are therefore working in two directions: drawing up a public policy for developing public transport by examining all potential modes and setting up a Transport Authority. It is therefore necessary to find more flexible and effective ways of managing the problems which are posed at the metropolitan level and which cannot be resolved within each commune. Intercommunal cooperation has no meaning unless it provides a way of dealing with an issue which cannot be dealt with at mu-

nicipal scale, according to the principle of subsidiarity. The mayors have understood this and intercommunality is no longer perceived as merely a constraint but also a source of benefits of various types: technical (better management of urban services), political (improvement in the living conditions of the population), and institutional (a position of strength with respect to central government). The project's success will no doubt be determined by the ability of elected officials to progress towards communal cooperation at both operational and political levels without presupposing anything about its ultimate institutional form. ■

## Cambodia: assisting the process of devolution and decentralization

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*Urban service infrastructure has not matched the very rapid growth of the city of Siem Reap, particularly in the drainage sector. As a consequence of this state of affairs, in early 2006, the Kingdom of Cambodia obtained 4.5 million euros of funding from the French Development Agency which coincided with the start of a process of reform which is aiming to introduce a dual process of devolution and decentralization. The district level of government was at the core of this process.*

The historical site of Angkor in Cambodia currently attracts almost one million visitors per year. The city of Siem Reap is located in the immediate vicinity of the huge archaeology park and, in a period of about ten years, has undergone spectacular growth, with its population rising from 30,000

to more than 100,000, without any of the urban planning documents drawn up under the aegis of the APSARA, the public body responsible for conserving and planning the Angkor site since 1995, having been adopted let alone applied. Consequently, urban service infrastructures have not fol-

lowed the very rapid growth of the built-up area and the population. The infrastructure is inappropriate, particularly in the drainage sector where the inadequacy and malfunctions of the system are leading to floods during rainfall events and deterioration of the urban environment.

As a consequence of this state of affairs, in early 2006, the Kingdom of Cambodia obtained 4.5 million euros of funding from the French Development Agency intended primarily to:

- create a drainage and sanitation master plan for the entire city, consistent with the urban master plan drawn up in 2006 funded by the Japanese Development Agency,
  - draw up and implement a priority programme for improving drainage and road structures in the Eastern zone of Siem Reap, where the city is being extended.
- In the Cambodian administrative context, the spon-



sor for a project of this type would normally be the Ministry of Public Works, which would set up a project unit managed by the Ministry at Phnom Penh, with local support from the provincial departments. The provincial level is the principal level of devolution for State government, all of whose technical ministries are represented there. The provinces have no fiscal autonomy. In particular, the Province of Siem Reap (600,000 inhabitants, with 12 Districts one of which is the Urban District of Siem Reap) receives no direct revenue from the hotels and businesses that have sprung up in the last ten years, and both its annual budget and resources remain small in comparison with the spectacular development of its capital.

However, the AFD's funding coincided with the start of the implementation of a series of measures that are part of a reform process that was initiated in 2003, which aims to introduce a dual process of devolution and decentralization. The District level is at the core of this process. Initially, the reform aims to extend its prerogatives, in particular in the area of planning, scheduling and managing urban investment, and ultimately to make this level the principal level of decentralization in Cambodia, governed by a District council bringing together municipal representatives of the municipalities. Although the constitutional act that will precisely define the nature of the reform has not yet been passed, a decree of 11 June 2003 has already designated the District of Siem Reap as a pilot District in the framework of this process (with the District of Battambang). The District's workforce was tripled in 2005 and a new

organizational chart was deployed which, in particular, features a planning and investment office.

The idea of "decentralizing" the sponsorship of the project funded by the AFD, was thus adopted naturally. What was involved was not only participating in testing out the reform but also, and above all, responding to requirements as regards project implementation and ownership. It became apparent that the drainage and sanitation master plan for the city would only be effective if it was managed by the departments of the District – which was the administrative level covering the urban area and ultimately responsible for scheduling investments, and using the programming tool embodied by the master plan. In addition, the implementation of works, expropriation procedures, and relations with resident users required the full involvement of the authorities closest to them.

At the same time, it was important to develop a project sponsorship system that was compatible with the actual expertise and experience of the local players at each administrative level, and which, on a formal level, took account of the possibilities provided by the existing institutional framework. The finally adopted solution was to formally appoint the Province as the project sponsor. A project management unit, headed by a Provincial vice-governor, was set up which combined the responsibilities of the provincial Public Works department, the APSARA, and the District and which works in liaison with the municipalities. This project unit receives project sponsorship support from a specialist service provider



*Part of the drainage network in Siem Reap, Cambodia*

Thierry Dalimier - R.R.

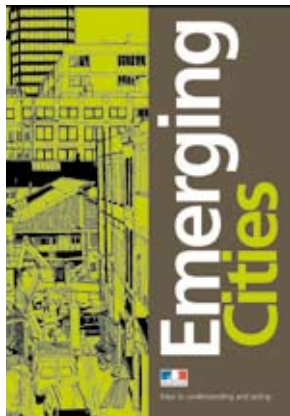
which also has the task of designing and implementing a training programme for the provincial departments, in particular those of the District, on such topics as project management, municipal management and the scheduling of investments.

This system should permit both the development of expertise which is rooted in practical experience of managing a large-scale project and the adoption of the master plan with a view to the efficient and delocalized scheduling of future investments that support the city's development. Lastly, it is part of the process of reform as it fits in with the concept of pilot experiment developed by the authorities for the District of Siem Reap.

The Province is already considering ways of perpetuating this expertise within its local services and does not exclude the possibility that, in the near future, other on-going projects might take advantage of the expertise that this project unit has built up. ■

# News on cooperation

Launch of the publication  
**Emerging Cities**  
And the website [www.villesendevenir.org](http://www.villesendevenir.org)



The publication of the book *Emerging Cities* – keys for understanding and acting – and the launch of its dedicated website were announced at the 2007 International cooperation and development seminars and at a meeting at the Senate sponsored by the HCCI. It is the outcome of a political desire on the part of the Ministry of Ecology and Sustainable Development and Planning (MEDAD) and the Ministry of Foreign and European Affairs (MAEE) with assistance from the French Development Agency (AFD). It was coordinated by ISTD which mobilized an assortment of

contributors including field workers, researchers and experts. This tool provides a brief, informative and illustrated analysis of the major urban issues in 12 thematic chapters. *Emerging Cities* deals with the cities in emerging and developing countries which is where the vast majority of the world's citizens will live in the future. The book is available in French and English and will be translated into Arabic, Japanese, Chinese and Spanish in the near future.

Website/ [www.villesendevenir.org](http://www.villesendevenir.org)

## Publications



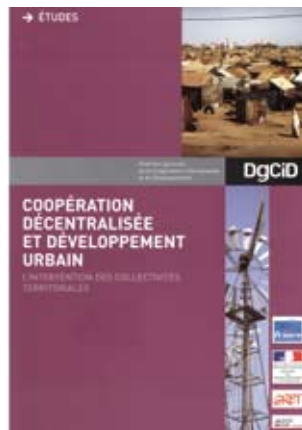
**Afrique contemporaine n° 221**  
De Boeck éd., 2007  
Décentralisations et développements  
Coordonné par Emile Le Bris (IRD)  
et Thierry Paulais (AFD)  
252 p.  
*Available on-line at [www.cairn.info](http://www.cairn.info)*

This report tackles the highly varied topics that come under the heading of decentralization. The issues covered relate to the link between democracy and development, the future of central government and, from a more technical perspective, the organizational and financial structures which will allow African countries to face up to the dual challenge of the urban explosion and intra-continental migration.



**L'AFD et les villes**  
collectivités locales et coopération décentralisée  
Plaquette de présentation de la stratégie et des activités de l'AFD  
*Available for download at [www.afd.fr](http://www.afd.fr)*

The AFD has made the decision to act as far as possible at municipal level by favouring direct project sponsorship by the municipality for the projects it funds. The municipalities are responsible for the funds made available and the actions undertaken. These projects have three major objectives: to improve land use management, to increase financial resources and to strengthen project sponsorship capacities.



**Coopération décentralisée et Développement urbain**  
L'intervention des Collectivités territoriales, MAEE 2007.  
This study was performed by the group for Technological Research and exchange (GRET) and ACT Consultants following a request from the Delegation for Local Authority Action Abroad (DAECL) at the Ministry for Foreign and European Affairs (MAEE). It is one of the inputs that has led the DAECL to make institutional support and sustainable urban development a priority area for cofinancing decentralized cooperation.

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