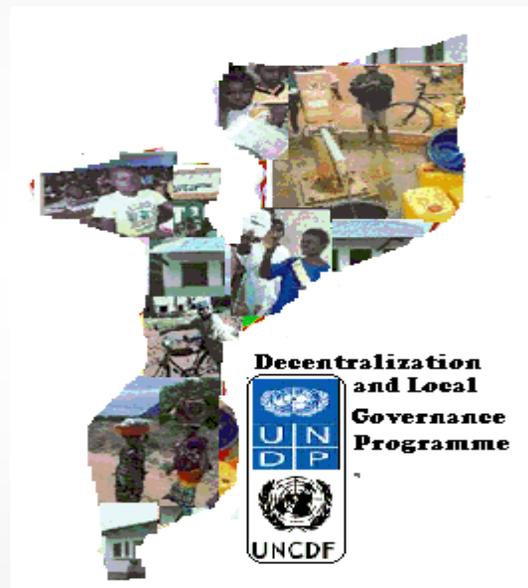


# DECENTRALIZATION AND DISTRICT DEVELOPMENT:

## Participatory & Multi-sectoral Framework for Decentralized Policies and Local Development Strategies addressed to Millennium Development Goals



July, 2005

**Consolidated review of case studies, regional experiences, best practices and  
evidences based on UNCDF & UNDP Support in Mozambique**

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Decentralization and Local Governance

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## **PREFACE**

In a globalised world, local cultures, environments and resources are too often considered as “raw material” to be extracted, transformed and consumed in the global market. In this way, the local diversity risks to remain unknown or be absorbed and lost.

The alternative to this kind of globalization has to be based in a “global project” which puts in value local resources, gives voice to the people’s needs and promotes mechanisms of responsibility and decision making at the community level. This “project” places decentralization as the main instrument for the Governments to be closer to the people and invents, side by side with representative democracy, new forms of participative democracy where citizens take control and participate to the local governance. Experiences gained at international level demonstrate that decentralization, coupled with participative democracy, produces more efficiency and transparency in the services provided to the citizens and, ultimately, more human development and more social cohesion at the local level.

It is also a way to broaden the scope of citizenship, including those segments of the population, which are often excluded from the exercise of their rights. This is particularly important in those developing countries, which have gone through the experience of colonial and post-colonial centralised States where local autonomy was suppressed. Whereas recognition of local diversities, acknowledgment of cultural pluralism as a social wealth are everywhere considered the foundation of modern democracies, in a developing country, like Mozambique, it is also a way to recover and dignify the cultural heritage of its people.

The present Working Paper, prepared by Israel Jacob Massuanganhe, is an important contribution to the construction of a common understanding of the issue. Here the concrete experience of Mozambique is analysed within a more general conceptualisation of decentralization and local development, as essential instrument of participatory democracy and exercise of citizen’s rights.

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Maputo, July 2005

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## **INTRODUCTORY NOTES**

"Good governance" assumes a government's ability to maintain social peace, guarantee law and order, promote or create conditions necessary for economic growth, and ensure a minimum level of social security. Effective decentralization can provide exciting opportunities for democratic change at the local level and can help improve national democracy as well.

Decentralization may entail only the (re) establishment of local participation or it can involve a shift to the local level of a variety of functions and new financial resources in a country that has held local elections regularly for decades. When the transfer of authority is sufficient, local governments obtain the political, financial, and administrative autonomy to better address community needs. Local governments can more easily become inclusive and accountable to the public with increased autonomy from the center and communities can become more pluralistic absent central political control.

Through local participation and practices such as public meetings, citizens can participate more effectively in local decision-making, gain experience in democratic processes, and hold local officials responsible for their decisions. In short, local development can emerge.

Finally, I would like to address my special thanks to Professor Jan J. Loubser, (Ph.D), Mr. Daimu S. Mkwawa, UNCDF/UNDP Programme Specialist in Tanzania for the comments and to Ms. Francesca for the Preface.

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## ACRONYMS

CBO	Community Based Organization
DDP	District Development Plan
DICs	District Information Centers
DWG	Decentralization Working Group
GIS	Geographic Information System
GoM	The Government of Mozambique
IPCCs	Community Participation and Consultation Institutions
LOLE	Law of Local Organs of the state <i>[Lei dos Órgão Locais do Estado]</i>
LDCs	Low Developed Countries
LDP	Local Development Programmes
MAE	Ministry of State Administration
MDGs	Millennium Development Goals
MPD	Ministry of Planning and Development
NGOs	Non-Government Organizations
PPFD	Decentralized Planning and Financing Programme <i>[Programa de Planificação e Finanças Descentralizadas]</i>
PARPA	Poverty Reduction Strategic Paper/Plan (PRSP) <i>[Plano de Acção para Redução da Pobreza Absoluta]</i>
PM&E	Planning, Monitoring and Evaluation
PSR	Public Sector Reform
SISTAFE	<i>Sistema de Administração Financeira do Estado</i> – Government Financial System
UN	United Nations
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme

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## 1 INTRODUCTION

### 1.1 NATURE AND PURPOSE OF THE DOCUMENT

The document is an integrated and multi-sectoral policy paper that focuses on definition of the inclusive long-term vision of decentralization process, as well as the general framework of mainstreaming sectoral decentralization into local development. The paper focused on the review of author's conceptualization of a new orientation for participation and local governance to help to meet sectoral decentralization challenges.

The regional experiences from UNCDF/UNDP and best practices were reviewed, with the observation that such reforms as had obtained accountability and good local governance at the district level in LDCs. A review of the experience and practice of "*an integrated policy document formulated by and representing the shared vision of the actors of Republic of Albania*"<sup>3</sup> showed that these new management techniques focused on output and results. The document provides the basic framework to mainstreaming decentralization and participatory approach within sectoral policies and development strategies, looking at the district as focus and development pivot. The key point is that local governments or local governance structures (the district) should have a special mandate to help eradicate poverty, accountability, participation, and capacity building.

#### 1.1.1 As a policy document

As a policy document, (i) guides for any reform directly linked with decentralization and district development, based on evidences from UNCDF/UNDP Decentralized Planning and Financing Programme (PPFD) in Mozambique; and (ii) harmonizes any sector reforms oriented to the district with the principles and goals. In particular, this includes policy advice for institutions, strengthening supervision, coordination, and support functions of the provinces, capacity building for district level and institutional building support at local level.

The Government of Mozambique (GoM) reaffirmed the principle that the district must be the unit on which is centered actions to combat poverty and recognizes the district as development pivot. To support this statement, decentralization policies should change relationships, providing districts far reaching responsibility to handle their own affairs, along with substantially increased revenue raising and expenditure authority. The devolution of functions and resources, in concert with better accountability for districts boards, is likely to yield a more responsive government and higher quality of more efficiently delivered services.

#### 1.1.2 As a comprehensive document

As a comprehensive document, focus on integration of general goals and principles of the sectors and sub- sectors with territorial challenges. This means it should be treated and implemented as an *integrated Planning, Monitoring and Evaluation tool*, in such way that the reforms and developments in sectors and sub-sectors (*horizontal approach*) will not conflict with the territorial reforms (*vertical approach*), particularly with local institutions.

Strengthening local government and civil society institutions through a process of decentralization, participation and capacity building for local governance is considered an essential precondition for a stable political, economic and social development and thus for sustainable poverty alleviation. Decentralized government can provide space for people to participate in local development. It can ensure a more efficient allocation of resources, enhance local resource mobilization, and improve local governance.

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<sup>3</sup> This review was based on regional experiences, best practices and Albania case study on decentralization.

### **1.1.3 Improving sectoral strategies**

As a strategic document, provides concept of decentralization, clarify the sectoral and territorial vision and goals, and identify key indicators, within the largely accepted principles of local autonomy, participation, and local development. Determined sectoral efforts are therefore needed by the Government to ensure that districts formulate and support policies geared towards poverty alleviation. This implies a system of supervision and guidance ensuring that the central, provincial and district linkage are ensured and sectoral plans are harmonized.

The implementation of democratic local governance principles offers significant opportunities for citizens to effectively participate in decision making on matters that determine their living conditions, and to undertake initiatives towards improving them. Support for decentralization and local governance is therefore also in line with the government's aim of mainstreaming efforts towards equality. Decentralization should play key role for that effort establishing systems and mechanisms. Such systems would require direct answerability downward to clients for performance, use of resources, enforcement of "rules of the game" and protection of personal rights.

It's recognized that through decentralization holds opportunities for equitable regional development and poverty alleviation. Experience elsewhere, shows that it does not automatically result in pro-poor policies at the regional or local level. Social capital, reflected in the willingness and ability of communities to work together for common purposes, is vital to all of these processes. There was general agreement that institutions and policies aimed at strengthening civil society and community participation is essential for successful local governance.

### **1.1.4 Integrated vision: Long term coherence to achieve MDGs**

Through the UN country teams worldwide UNDP leads efforts to help countries integrate the Millennium Development Goals into their national development frameworks. Countries are tailoring the MDGs to national circumstances, building them into national development strategies and policies, and incorporating them in budgets and ministries' priorities. The goals are also integrated into assistance frameworks and programmes.

Launched in July 2002, the [Millennium Project](#) is an independent advisory project commissioned by UN Secretary-General Kofi Annan. Working in cooperation with developing countries and other partners, the project has set up an expert task force to prepare strategies to help countries achieve the goals by bringing together the best current thinking and research. Its work includes reviewing innovative practices, prioritizing policy reforms, identifying means of policy implementation and evaluating financing options.

Decentralization is a complex process that takes years to implement, but is recognised that should play critical role to achieve MDGs, it because its nature to work at local level. The document will provide the necessary coherence and continuity of this long process as well as describe the tasks required to ensure that the vision of decentralization becomes a reality and generates tangible benefits for local government linking the local communities.

UNDP/UNCDF, has generated key lessons from experiences with working at both the upstream and downstream levels, aiming to achieve the desired linkages and synergy between them, in order to effectively contribute to poverty reduction and other MDGs. These lessons highlight the importance of a holistic approach, more useful engagement of civil society and the private sector while keeping in mind the central role, local governments and effective partnerships.

From UNDP/UNCDF perspective it comprises empowering of sub-national levels of society to ensure that local people participate in, and benefit from, their own governance institutions and development services. Institutions of decentralisation, local governance and urban/rural development must bring policy formulation, service delivery and resource management within the purview of the people. These institutions should enable people, especially the poor and the marginalized, to exercise their choices for human development.

To limit the danger of inadequate implementation of decentralized policies and strategies, issues to be tackled include:

- ***Define and consolidating the relevant Policy & legal framework:*** a number of implementing policies, particularly for numerous sectoral laws, regulations and strategies have to be adjusted to the new decentralization and participatory framework.
- ***Improving the management & capacity, particularly inter-agency coordination:*** Strengthening the capacity of district/local governments by improving professionalism of civil servants and institution building, enabling them to deal with the challenges of their increased responsibilities and with people's expectations for improved public services.
- ***Capacity building for provincial and district government:*** enabling them to meet the challenges of their new responsibilities. Improving the fiscal decentralization system to reduce mismatches between fiscal capacities and expenditure needs, particularly in the poorer regions of the country.
- ***Increasing district financial capacities of district/local governments:*** by firmly establishing fiscal equalization between center and provinces and providing districts with authority to increase their own income.
- ***Strengthening supervision and control:*** particularly those on taxes and levies that may interfere with the free flow of goods, services and capital and thus may impede the competitiveness of local businesses as well as constrain foreign investment and thereby undermine the country's growth prospects.
- ***Strengthening accountability mechanisms:*** to prevent decentralization from becoming a vehicle for increased corruption, collusion, and nepotism in the districts, ensuring adoption of principles of good governance (like public participation, strengthening local democratic institutions, transparency, and accountability) at all levels.

While major benefits can be expected, the complexity of the ambitious concept, an imperfect legal framework and the tight implementation schedule are as much reason for concern as the weakness of newly established democratic institutions in many countries, which restrains the effectiveness of accountability mechanisms and may thus help to make decentralization a vehicle for the proliferation of corrupt practices.

To reduce potential risks, a more effective management of the transition phase, stricter supervision, and control, a reduction of mismatches between fiscal capacities and expenditure needs, and capacity building for district/local institutions is needed.

## **1.2 BACKGROUND: MACRO ECONOMIC CONTEXT**<sup>4</sup>

The Action Plan for the Reduction of Absolute Poverty (PARPA) is of fundamental importance to Mozambique, as it is an overall and integrated plan that defines the main actions to be taken in the fight against poverty. In the first National Poverty Assessment (1997), the average consumption *per capita* was estimated at about USD 170 per year, at the time of the preparation of PARPA, which places Mozambique among the poorest countries in the world. Countrywide, the incidence of absolute poverty is 69.4%, which corresponds to more than two thirds of the population living below the poverty line (Mozambique Paper, 2002).

### **1.2.1 PARPA as a strategic vision for poverty reduction**

PARPA includes a strategic vision for poverty reduction, the main objectives and the key actions that should be pursued. To strengthen the strategy principles, PARPA becomes the guide for preparing the State's budgets and programmes and policies, both annual and at the medium-term. As a rolling and dynamic instrument, PARPA is constantly under an updating process, hence the importance of the monitoring and assessment instruments.

Thus, the Government's central objective becomes the substantial reduction of absolute poverty levels in Mozambique through measures to improve capacity and provide opportunities for all Mozambicans, and in particular those for the poor, specifically aiming at reducing the incidence of absolute poverty from 70% in 1997, to less than 60% in 2005, and less than 50% until the end of the first decade in 2000.

The demand for a specific programme to reduce absolute poverty emerges from the fact that imbalance is growing and the way out of it for one of the world's poorest countries entails solving the problem of growth in that country. Now such growth can not be achieved by improvements in certain strata, but by a comprehensive improvement in capacity and living conditions for the majority of the country's population, overwhelmingly comprising poor.

The fight against poverty is thus the necessary route for growth in Mozambique, and the inverse sentence is equally true if such growth is permanently re-balanced by governmental policies prioritising the improvement of living conditions and the opportunities for the poor. In Mozambique, under the current social and economical development condition, rural development has to be put into the equation for the strategy of fighting against poverty to be efficient. The generation of wealth through agricultural production is the best strategy, considering that the majority of the population lives in the rural areas and works in agriculture.

It should be stressed that whichever the strategy may be, it should include:

- Establishment of food security and establishment of dynamic and efficient rural agricultural markets;
- Increase of productivity and competitiveness in the agricultural sector;
- Transformation of the countryside, creation of rural agro-industry and making the countryside a net exporter of agricultural produce;
- Equitable distribution of wealth generated in the rural areas, and preservation and sustainable use of natural resources.

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<sup>4</sup> See Mozambique paper, (2002). The 5<sup>th</sup> Africa Governance Forum country paper – Mozambique

### **1.2.2 Poverty and macro-economic management**

Poverty in Mozambique has two further characteristics: is more rural than urban – 71.2% comparing to 62% – and is definitely localised – three provinces, Sofala, Inhambane and Tete, have poverty indexes of 87.92%, 82.67% and 82.27, respectively, with ultra-poverty indexes (60% below the poverty line) of 65.19 %, 53.60% and 53.73%. Along this very same line of spatial differentiation, the City of Maputo has the lowest levels of poverty and ultra-poverty incidence, and the Province of Cabo Delgado is the less poor in terms of consumption *per capita*.

As it was shown by the initial findings that preceded the preparation of PARPA, the access of the poor to primary education was quite greater than the access to the secondary level and that this was due to State intervention. This demonstrates that even in a poor State the public power may have a positive effect on the rights of the poor. It is with this same objective that a thrust to employment is sought both by providing incentives to the private investment and by self-employment encouragement policies. The regions with higher concentration of poor are defined as priorities.

For a rapid, broad and comprehensive growth, six “crucial areas of action” were identified: education, health, agriculture and rural development, basic infrastructure, good governance, which includes simplification of administrative procedures, the fight against corruption and deconcentration and decentralization and macro-economical management in order to keeping inflation back, stabilising exchange rates and creating an enabling environment for investment. One of the major problems in Mozambique is the lack of rural financing and credit. Analysing the flow of capital, although there are not any global data concerning the flow of capital, one may point the following as the main reasons for lacking rural financing and credit:

- The low return of agrarian rural-based enterprises;
- The low level of savings at the domestic and the private sector levels;
- The low level of savings in public finance;
- The poor contribution of the financial markets.

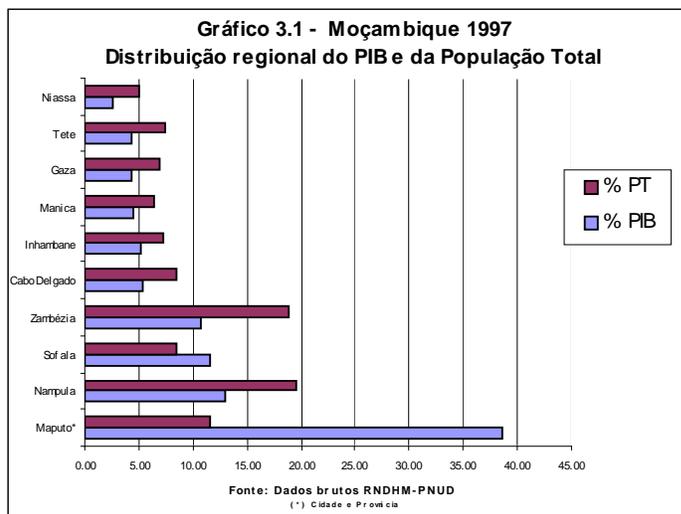
The export revenue has contributed for the investment in agriculture. Multilateral donors and investors pay little attention to agrarian enterprises. Despite constituting the biggest share, direct external investment is still at very low levels, and official development assistance has not allowed financing of agriculture. Thus, there is an urgent need to increase the levels of domestic savings in Mozambique. In many countries in Africa, the sum up of domestic savings, although low, sometimes reach 5% of GDP (Mozambique Paper, 2002).

In Mozambique, despite not having reliable figures available, a quick estimate indicates that domestic savings in the household and small-scale enterprise sector are at about 0.5%. The rates of domestic savings are influenced by many factors, including the level of income, among others, and a well designed finance legal framework could help families and the agricultural sector to improve their level of savings, a pre-requisite for increasing agrarian investment.

There are no estimates of the flight of capital in Mozambique, but one may believe that it is significant. The banking sector could produce estimates of this indicator to better analyse the flow of capital and, if it was high, could develop mechanisms to invert it. However, to prevent the flight of capital it is necessary that investment opportunity in agriculture is attractive and that rights of property and insurance adequately protect investments. At this point, it is important to mention the crop insurance against storms and natural disaster.

The priority assigned to the fight against poverty emerges from two basic findings: on one hand, the country’s development may not rest only on improving the living conditions of a limited population stratum. Only developing the capacity of the broad majority creates a sustainable basis for the development of the economy, inasmuch as it increases capacity and enhances professional and

labour performance – hence the emphasis on education and health, which permit to increase capacity and labour effectiveness, *cf.* the excessive number of days of absence to work due to illness both in agriculture and urban labour.



Graphic 1. Macro economic context of Local Governance

Because poverty has a rural component, only a decisive thrust to the agricultural production mode, the solution of food problems and the transition to an endogenous commercial economy not only through major agricultural companies, will allow a systematic and sustainable increase on rural well-being. Hence the emphasis on rural extension, support in the form of inputs, re-organisation of a rural trading network and road infrastructure to channel out produce. Peasants do feel

this as a problem, considering as catastrophic the desertion of traders from rural areas. Considering that the Mozambican economy has profound structural weaknesses, the action strategy should seek to reach the highest possible number of people acting to benefit the poorest and, above all, to capacitate: hence the essential importance of the actions improving the quality of the human capital, since the lack of instruction comes as one of the main obstacles to using the full capacity, to accessing the public services, specially so in the rural areas (Mozambique Paper, 2002).

### **1.3 DECENTRALIZATION AND DEVELOPMENT**

**“It is Essential that African leaders follow up on the commitments they have made to the people of Africa, and genuinely improve governance and transparency in all sectors.”**

*Kofi Annan, Implementation of the UN Millennium Declaration, 2002.*

The current status of local government is a product of the dynamics of the political, economic and social factors of transition, as well as historical, traditional, cultural and social psychology. The early steps for decentralization were based dominantly on centralized political objectives. In recent years, the increase of experience at the local level and the fostering of a local political/managerial class have brought to the game a new active decentralization actor.

#### **1.3.1 Concept and overview of Decentralization and Participation**

Decentralization is a process through which authority and responsibility for some functions are transferred from the central government to local governments, communities and the private sector. This process involves that decentralized<sup>5</sup> institutions, either local offices of central government or local private and civil organizations (entrepreneurs, farmers, communities, associations, etc.) be provided with higher power in decision taking (Cistulli, 2002). Rondinelli (1981) defines decentralization as the transfer of authority to plan, make decisions, and manage public functions from a higher level of government to any individual, organization, or agency at a lower level. To Blair (1996) decentralization means “reversing the concentration of administration at a single centre and conferring powers on local government”. In this study, decentralization is considered the opposite of centralization or concentration of power and involves delegation of power or authority from the central government to periphery involving local communities (participation).

Decentralization may take various forms. The four main forms are considered: (i) *Political decentralization* is associated with increased power of citizens and their representatives in public decision-making. It generally involves a representative political system based on local electoral jurisdictions and pluralistic parties. (ii) *Administrative decentralization* is the transfer of responsibility for planning, financing, and managing certain public functions from the central government and its agencies to field units of government agencies, subordinate units or levels of government, semi-autonomous public authorities or corporations, or area-wide, regional, or functional authorities. (iii) *Fiscal decentralization* is associated with the authority of the decentralized units to make expenditure decisions with funds either raised locally (e.g. user charges, co-financing with users, property taxes, borrowing, etc.) or transferred from the central government. (iv) *Market decentralization* is the most decentralized form in as much as decision-making power is transferred from public to private organizations.

From local community perspective, effective decentralization concerning powers requires these same elements. However, when examined in detail, community-based and decentralized forms of management often lack representation, downward accountability and/or sufficient powers. Decentralization plays a special role in local democratization because local populations participate in management and use participatory decisions making can be a fulcrum for rural development. A combination of locally accountable representation and discretionary powers are also needed. This combined condition is rarely established. Alternative local institutions are chosen even when

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<sup>5</sup> This is in part because the policy thrust seeking to empower the peasant communities is supply-led, and thus defined according to the terms and processes of external agents, including funders and central governments and their functionaries.

democratic local bodies exist. Decentralization is precondition to ensure Participation and considered fundamental for democratization.

Participation<sup>6</sup>, for which a case can be made on economic, political, social and cultural grounds, is now considered essential to the globalization and modernization processes. Considered as a fundamental part of Local Development, it may be defined as: *the capacity and the ability of the community to contribute to, share in and benefit from, diverse social, economic, political or other processes of the society*. Participation in development, as indicator of decentralization, involves in the first place the national community. Participation<sup>7</sup> is therefore a continuum, a permanent state which can only be achieved through providing the means for effective involvement of people in all facets of the society and actively promoting this as a matter of policy and practice (Cistulli, 2002). This choice and the failure to transfer discretionary powers can undermine local democratic bodies and concentrate powers in the executive branch. The choices being made around resources appear to reflect a broad resistance of central governments to local democratization and decentralization of powers.

Participation, as Cistulli (2002) argues, has to be planned and supported by policy and other measures. Some areas for action include: commitment by governments to the principle; search for methodologies of effective participation for development; commitment to fund and support target sectors and programmes and commitment by the civil society organizations to efficiency, accountability, improved capability at the local level. The principal targets in promoting participation in development in the framework could be: the *community sector*, the *private sector*, and *non-governmental organizations accountability*.

It's become clear that decentralization and participation has a number of specific features. Against this background, it has long been recognized that clarifying and ensuring participation can enhance economic growth through a number of channels. In many African countries, popular participation has not been a common feature in the political and social processes as the State sector was expected to assume leadership for promoting development in the absence of a well-developed private sector of entrepreneurs and investors (Cistulli, 2002). Good Governance is considered within the framework of power, process and practice and how these shaped communities access, control, and use of resources. Over the years, state visions of appropriate management and use of resources have largely been extended to the African communities through a centrally directed structure and process.

However, state control over the use and management of resources among the local entities was and is largely ineffectual because the state lacks the resources and capacity to enforce such controls. There is consensus that decades of development effort and international cooperation have not produced the results, which were optimistically projected at the start of the development era. All has not been negative, as several countries may have benefited from aid; various sectors within most countries have taken economic and political advantage of space opened by the post-colonial processes, and the quality of life has improved for some. Yet, slow economic growth and stagnation are still in evidence (Cistulli, 2002).

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<sup>6</sup> Chalfant (1984) argues that Participation is therefore essential to the globalization and modernization processes at work today, but the end product should not result in the homogenization of society, national or global. If cultural change is to be considered an integral part of modern development, the extent, direction and pace of change must however be allowed to emerge through genuine dialogue and consultation of those concerned.

<sup>7</sup> A case for participation can easily be made from several grounds: *economic*, [resource management; expansion of popular economies, etc.]; *political* [involvement of more sectors; scope for more equitable power allocation]; *social* [knowledge and value systems, inter-personal and group relations] and *cultural* [creativity, tradition, innovation and evolution].

### **1.3.2 The decentralization of the decision-making**

The decentralization of the decision-making powers creates important prospects in terms of development, namely: *It allows a better adaptation of national measures to the specificities of local contexts.* Take the example of Cape Verde; decentralization has enabled to elaborate specific rural *land planning*, adapted to each area. These plans can be defined with the local actors. This brings about not only a better rationale in the application of funds and resources available but it also ensures a real appropriation of the investments made by the local populations. It allows the launching of a reflection process at the local level, through the acquisition of new skills for the development and the creation of new links between the local actors. For these two reasons, it carries innovations, initiatives and development. Samuel Thirion<sup>8</sup> argues in his examination:

#### **a) The need to separate functions at the local level**

Very often, existing local or regional powers, have the tendency to concentrate in their hands, functions, other than their own function of decision making, namely: *Those that come before the decision: the functions of reflection and making proposals, those that come after: the functions of funding and of execution.* Such a concentration of functions is contrary to any idea of participation and it may represent an obstacle to development. Actually, the more the local and regional elected powers possess an indisputable legitimacy to assure the power of decision making that they are responsible for, the greater the importance that the functions that come before and after the decisions are carried out by other local actors that are in a better position to implement them. The participation of specialized institutions in the financing process attracts funds other than public ones, often very limited (local savings, immigrants, companies, etc.).

#### **b) The need for Local Development Plans**

The segmentation that is most often found in rural societies, leads each institution or social group to have a spatial and sectoral view of the reality according to their economic, social and cultural situation. These views are often divergent, even opposite and conflicting. Rural development cannot be envisaged without a full approach at the level of each territory. This supposes a confrontation, as wide as possible, of the viewpoints of the different actors and of the existing interests at the territorial level in order to reach a "consensualization of objectives" around a common strategy of local development indispensable to ensure the effective participation of the local actors.

#### **c) Local partnership as a participation tool in a decentralization context**

The partnership with local organizations and companies in the execution of the projects, values the local skills which are technical, and also helpful in terms of management of the project- and effective in its execution. Participation and the defense of the interests of the most disadvantaged populations (women, young people, and the poorest populations) is a fundamental tool for social cohesion and rural development. A local partnership is the constitution at a local level of a structure (formal or informal) gathering the largest possible and the most diversified number of actors, playing the role of an association or of a local development agency. The creation of such a structure enables the systematization of confrontation as well as the "consensualization of objectives and expected results." In other words, it establishes a bridge between public and private actors, between associations and businesses, between those who possess the means and those who have the skills and creates the conditions to integrate the poorest populations in the development process.

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<sup>8</sup> See Samuel Thirion, considers the participation of local organizations (women and farmers organizations, local ONGs, cultural associations etc.) in the reflection and proposals that come before the decision, is an enriching powerful factor for the development processes. *See details in Local partnership as a key tool for participation and decentralization. Intercooperação Desenvolvimento (INDE), Portugal*

### **1.3.3 Decentralization and Poverty Reduction Linkages**

Local authorities are an essential tool in the fight against poverty, for two reasons. They manage those investments designed to enable the poorest population sectors to access basic services (health and education in particular), because they know the “terrain” better than anyone else and are able to attract the support of the people (without whose support any investment would be futile). Second, they play a major management of investments, thereby guaranteeing them a longer lifespan.

The alleviation of poverty has, in recent years, become one of the highest priorities of international development. Concurrently, the definition of poverty has evolved together with a better understanding of the nature of poverty itself and its underlying determinants (Bonfiglioli, 2003). Decentralization has been considered by many as one of the most important strategies in public sector reform agenda. This is because have considered decentralization as a strategy that will bring service delivery closer to consumers, improve the responsiveness of the central government to public demands and thereby reduce poverty, improve the efficiency and quality of public services and empower lower units to feel more involved and in control.

The virtues of decentralization such as democracy, popular participation, responsiveness, accountability and equity have led to the belief that decentralization will lead to greater responsiveness to the poor. Since the poor have been excluded from politics and therefore inaccessible to public goods and services, decentralization is seen as offering greater political participation to ordinary citizens whose “voice” is more likely to increase with concomitant relevance and effectiveness of government’s policies and programmes, especially in poverty reduction (Crook & Sverrisson, 2001)<sup>9</sup>. The relationship between decentralization and poverty reduction depends on the targeting of poverty-reducing public investment by local government units.

Local government units implement the national poverty reduction policy, narrowly or broadly defined. A narrowly defined poverty policy uses transfers of income, in money or kind, to the poor. Pioneering efforts at decentralizing and poverty reduction in rural areas entrustments over use and management of resources to the local communities have largely resulted in recentralization at the district level, where such efforts are still practiced in the trickle-down mode. In many developing countries local governments or administrative units possess the legal authority to impose taxes, but often the tax base is not sufficient to undertake local investments, so that they rely heavily on government transfers. The ‘poor and the unschooled’ participate much more widely in village-level and contacting activities. As regards the ‘gender balance’, men are strongly dominant in contacting but less so in the other activities. One area, however, where female participation is better than or merely as good as that of men is in the village level unit committee meetings (Crook and Sverrisson, 2001).

Evidence of the literature argues that decentralization<sup>10</sup> needs to be complemented by demand driven participation, conceivably championed by civil society, to ensure genuine democratization and empowerment in natural resource management. The challenge facing Mozambique today is how to sustain growth and reduce poverty. Many important economic reforms have been completed, but others a needed to increase private sector and local communities skills, productivity, and competitiveness and create economic opportunities for all, including the poor. Infrastructure

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<sup>9</sup> see Crook, R. C. & Sverrisson, A.S. (2001) Decentralization and Poverty Alleviation in Developing Countries: A Comparative Analysis or, is West Bengal Unique?, IDS Working Paper 130 (June): 1-60.

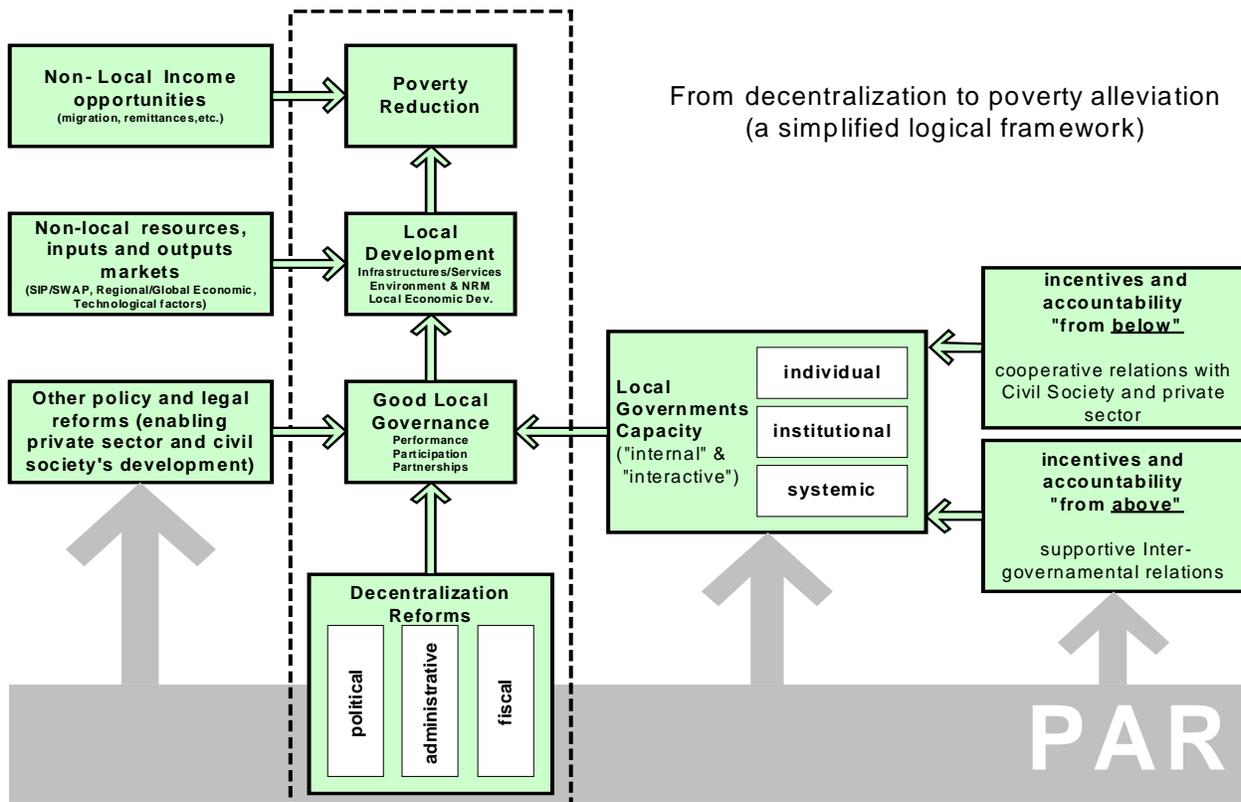
<sup>10</sup> The decentralized entrustments are defined according to the terms and processes of external agents, including funders of projects and central government and their functionaries.

has been built to support service delivery and the growth of markets, but more needs to be done to integrate under-served areas with high growth potential.

One of the perceived advantages of decentralisation is that it is intended to improve access to decision making for local communities by bringing planning closer to the grassroots. Empowering local communities to be involved in planning is expected to improve the opportunity for their demands to be met, increases their control over the decision-making and resource allocation process, and enhances transparency and accountability. In this regard, principles of decentralised planning work towards ensuring the plurality of community involvement in project/programme design and implementation through the strengthening of the relationship between the state and local communities.

Decentralization is generally assumed to facilitate redistribution and poverty alleviation since it brings greater grassroots level control over resources and their utilization. While this assumption may be generally valid, its applicability under the conditions currently prevailing in an average African state must be re-examined more critically for experience on the continent provides limited proof in support of this. In most cases, unless it is carefully and comprehensibly handled through, for example, strong oversight-cum-accountability institutions, decentralization can, and has often reinforced the power of local entities/communities and has worsened spatial inequalities, a state of affairs that has adverse implications for poverty reduction itself.

Figure 1- From Decentralization to poverty alleviation<sup>11</sup>



Source: Shotton, 2005

<sup>11</sup> Roger Shotton (2005). UNCDF/LDU's "Local Development Programme Guidelines. Based on accumulated experience of past and current LDPs across the globe. (UNCDF).

## **1.4 DECENTRALIZATION IN MOZAMBIQUE**

### **1.4.1 Legal Framework**

The *Local Government* process in Mozambique dates back to 1978. It began as a part of the process of dismantling the colonial state apparatus, which began after National Independence in 1975. The Mozambican administrative reform laws replaced the Portuguese colonial administrative structures and constructed a new system of governance structured at the national, provincial and local levels<sup>12</sup>. Hence, after independence Mozambique adopted a system of centralized administration, where each and everything was planned and decided at the centre of political power. The approach was an answer to: Meet the needs of the state; Defend/safeguard and consolidate the national independence; Achieve planned socio-economic measures; Use rationally the scarce resources and; Consolidate a unitary state.

The principles for State unity are proclaimed and all administrative institutions are integrated under the same command: law 5/78 created, in 1978, the Provincial Governments composed of a Provincial Governor, appointed by the President of the Republic, and Provincial Directors representing each Ministry, and only when exceptionally a set of Ministries, which was the case when a Ministry was subdivided at the central level but it was decided that the Provincial Directorate should be shared.

In parallel to these there were central delegates for exclusively central-natured functions (big projects conducted at the central level or a service whose nature was essentially of a central responsibility), but this position was never widely utilised, usually substituted by the Provincial Director for most representations of central services, as it happens today with the Provincial Directors of Registry and Notary. The Directors are appointed by their respective Minister, the Provincial Governor being consulted in the process, and are subordinate to their respective Ministry, while at the territorial level they are subordinate to the Provincial Governor, in what is a dual subordination system. In 1977 and 1978 a substantial reform takes place when Assemblies are created at all levels, close to both the Provincial Governments and other administrative units at the District and the City level (Law no. 3/77).

These Assemblies, although theoretically assigned with full decision-making power, did not possess full authority as stated: on one hand, they existed under a single-party regime, reason due to which primacy always rested on appointed office holders, who had control over resources. With the limitations of the single party framework in force, integrating citizens' representations at all levels of territorial division, they nonetheless operated as consultation in regard to people perceptions.

At the district and city level, the model anticipated the existence of an appointed leader, the Chairman of the District and City Executive Council (law no. 7/78), and members of the Executive Council selected by the respective assembly to supervise work areas of the administration, a model that is still legally in force. But just after one year upon their creation the Executive Councils were transformed into the set of Directors from the various areas of administrative activity, transformed into a Council of appointed Directors, replicating the model of the Central Government and the Provincial Governments. The argument then used was the difficulty to find people among the residents in the districts and cities and externally to the administration with the required qualification to supervise the district or city services.

At the locality level, Assemblies are created (Law no. 1/77) that elect their chairmen and executive councils. These are base structures without professional executive apparatus, undertaking their tasks on a voluntary basis. The existing apparatus at the administrative posts remains as a unit for the

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<sup>12</sup> See Dr. Aiuba Cuereneia. 2001 CAPETOWN, ([http://www.uncdf.org/english/countries/mozambique/local\\_governance/technical\\_review\\_reports/ACuereneia.php](http://www.uncdf.org/english/countries/mozambique/local_governance/technical_review_reports/ACuereneia.php))

provision of bureaucratic services, which lead to speaking about political localities and administrative localities. In 1986, the level of administrative post is re-established, their number increasing to 398, although their functions and means available were not considerably developed.

At its basis, the system rests on baseline organizations created at level of *bairros*, where the so-called dinamysing groups are established, in the rural areas at the level of villages constituting the locality, although neither of them had formal legislative support. In 1987 a national public debate on decentralization and autonomy of the local government was held throughout the country and it concluded that the state was top-heavy at the central level, and very weak at provincial and district levels. This national debate motivated the people's Assembly to pass Law n.2/87 of 19 January. This law authorized or permitted the Council of Ministers (The Government) to formulate statutes of administrative and financial autonomy. The cabinet therefore, was authorized to grant such autonomy to bodies and institutions whose nature justified it, and which could gradually become financially self-sufficient.

The Law n.2/87 was two-fold. First, to promote greater popular participation and accountability of the district assemblies and their executive councils. And secondly, to provide for close co-ordination between the cabinet and provincial governments in the decentralization of administrative and financial powers to districts. This second phase of local government reform come to an end after the adoption of the 1990 Mozambican Constitution.

In fact, decentralization process dates with the adoption of the 1990 Constitution the extinction of Provincial Assemblies is announced, scheduled to take place at the moment of the first local elections (article 211), and State Local Bodies are foreseen, composed by elected deliberative bodies and executive bodies appointed by the former. The end of the 1900's and the beginning of 2000's witness the onset of four movements as part of the political system consolidation: The gradual implementation of the municipal model, with the establishment of 33 municipalities; The movement towards deconcentration with the consolidation of Provincial Governments and by a more relevant role of the districts, where the Consultative Committees play an important role; The acknowledgement of community authorities; The coming into play of communities as participants in political activity.

Law 2/1997 establishes municipalities as territorial units, with their own representative body (Municipal Assembly) and executive organ (the Municipal Council). The Municipal Assembly is composed of directly elected members by universal suffrage. The Municipal Council comprises the Mayor and Town Councillors. The President of the Municipal Council (Mayor) is elected directly by the municipal population. The Town Councillors (the number of which varies depending on the size of the population of the municipality) are nominated by the Mayor and at least half must be drawn from the Municipal Assembly. They are responsible for supervising the implementation of activities by the municipalities' technical departments. The first multiparty elections were held in 1998 and took place in 33 municipalities.

The Decree n.15/2000, of 20 June allows traditional authorities and leaders from other congregations to articulate with Organs of the State for any matter that may arise within the jurisdiction of that particular. Decree 15/2000 recognizes community authorities as interlocutors between civil society and Local State Organs. The decree provides for several duties to be carried out by the recognised community authorities, including: (i) disseminating government laws and policies to community members; (ii) tax collection; (iii) registration of the population; (iv) justice enforcement; and (v) mobilizing and organizing communities for local development activities. The community authorities are entitled to wear uniforms and use national symbols. They also receive a monetary incentive for the taxes they collect.

National guidelines for District Development Plans (adopted in 2003) reinforce the role of the districts as units for planning and budgeting. The guidelines allow for the creation of local

consultative councils to act as an interface between civil society and the district authorities in the planning process. The existence of consultative councils extends to the municipal domain at the municipality, municipal district, urban administrative post and borough levels.

The Law 8/2003 - LOLE (Law of Local Organs of the state) was approved in 2003 and regulation in 2005. The Law defines the structure and organization of Local Organs of the state and enforces the district, as budgetary unity giving power to plan and define its priorities. The approval of the *Lei dos Órgãos Locais do Estado* (LOLE) in May 2003 was a small but significant step towards increasing the autonomy of provinces and districts. LOLE gives the Provincial Governor and the District Administrator the power to merge sectoral directorates into multi-sectoral technical teams. It also makes the district a budget unit for the first time and thereby legitimises the district as a planning unit. These two elements strengthen the independence of the districts and shift some power away from the sectors towards the local territorial authorities.

#### **1.4.2 Current Situation**

Local governments do have formally the authority to define the structure of local organizations and the number of employees financing from its own resources the added cost over the central financing but they have not authority for deciding their salaries. In the condition of extreme limited own resources the exercise of administrative authority by local governments remains, in practice, very constrained, nevertheless recent developments on allocation of investment funding for the districts.

The new decentralization framework gives rural and urban districts the opportunity to manage their development autonomously and in accordance with their constituents' aspirations. Empowerment of the regions enables them to make more efficient use of their own potentials to better position themselves in an increasingly competitive global economy, and may at the same time help to preserve national unity, which by many is considered essential for maintaining political and economic stability.

#### **The current status of local governments is characterized by:**

- General definitions of responsibilities/functions. The system is designed in such a way that it is not possible to draw a clear division of responsibilities between the sectors, local and National Government (with more evidence on planning cycle). Overlapping of responsibilities or mismatching of responsibilities and functions is evident in many fields. This limits the self-initiative of local governments in these areas.
- The new framework maintains the unitary system of government. But it places the responsibility for the delivery of public services primarily at the district level. At the same time, the authority of provinces is limited to the implementation of essential inter-district functions such as the provision of specialized education and training, control of communicable diseases, spatial planning, and environmental control. The new fiscal arrangements afford provincial and district governments more certainty in the availability of transferred resources and more discretion over their use.
- The lack of a coherent policy / strategy makes it difficult to monitor progress in decentralization, notably in relation to PARPA implementation and the transformations envisaged within the Public Sector Reform, whose strategy document clearly mentions an increasing role of local governments in the execution of policy and programmes.

### **Investment authority**

The line ministries plan and decide the details of investments and their funding. These investment funds are distributed through the conditional budget. In other words, local governments work as agents of a central government agency. With the Decentralized Planning and Financing Programme the districts, via Local Development Fund (LDF) have responsibility for ensuring the normal functioning of public infrastructure and relevant authority for planning and executing new investments, rehabilitation and renovations.

### **Fiscal and budget authority**

Central/provincial fiscal agents collect the majority of local taxes and fees. Few local governments have a local fiscal administration; as a result, the capacity of local governments to collect own local tax and fees remains very limited. Some large municipalities have strengthened their capacity to collect local taxes, an argument for further fiscal decentralization reform.

### **Regulatory authority**

The capacity of local governments to exercise any regulatory authority is limited even for their own responsibilities. The national authorities and their specialized bodies define almost all standards and procedures of services.

### **Service maintenance authority**

Since 1998, with introduction of Decentralized Planning and Financing Programme (PPFD)<sup>13</sup> local governments have had the authority to plan and execute expenditures for maintenance of local institutions under their authority. But, even this new positive experience is limited by the fact that funding from the national budget is limited, while the local budget is too weak to support the overwhelming needs.

Recent developments show commitment of the Government of Mozambique (district as development pole), and the transfer to districts of \$300,000 each is evidence of this. Furthermore, preconditions (district development plans, capacity building and technical assistance) to ensure that funds are being used for district development purposes should be addressed. The district profiles being finalised by MAE, are potential starting point tool for elaboration of the district strategy. Additionally, participatory monitoring and evaluation systems at the district level should be established to ensure accountability, involving local citizens, local organizations and other stakeholders.

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<sup>13</sup> Funded by UNCDF/UNDP and partners in Nampula and Cabo Delgado.

### **1.4.3 Perspectives on Policy and Legal Framework**

#### **a) Policy framework: The need of Decentralization Policy**

The Decentralization Working Group (DWG)<sup>14</sup> shares the Government of Mozambique's (GoM) view on the strategic importance of decentralization / deconcentration for the efficacy and desired impacts of PARPA in general, and as one of the key elements of the Public Sector Reform (PSR) in particular. The DWG<sup>15</sup> is aware that the expected outcome of the OLE Act is at an advanced stage, and recognizes the MAE/ DNAL for its continuing efforts towards this, as well as its openness to consider concerns of the DWG.

However, one of the DWG's major concerns is the apparent absence of a clear Government policy / strategy, which would transmit a vision on decentralization, and which would provide criteria and indicators for the introduction and implementation of decentralization, or components thereof. Both the respective legislation on municipalities and on OLEs speaks of gradualism. However, it is unclear what this actually means in terms of strategy, planning and management of public policies, and for PSR. Neither benchmarks nor indicators are given, e.g. in terms of the time horizon and criteria for the introduction of OLEs, the number of district centres (*vilas*) eligible for transformation into *autarquias* (*povoações*), and the transfer of competencies and resources from OLEs to municipalities.

#### **b) Legal framework: The need of the Law on Local Finances**

Financial decentralization is one of the fundamental requirements for a independent and viable local public administration. Continuous dependence on the center and the distribution of incomes from taxes, transfers and investments effectively eliminates the power of the local public administration (LPA) and citizens to make the appropriate decisions regarding the services they want and the way they are rendered (Valeriu, 2002).

The Law on Local Finances (LLF) should indicate norms of deductions from the general incomes of the state not only for the budgets of second-level territorial-administrative units, but also for the local budgets. Otherwise, the mechanism of deductions favors the county budget and not the local one, which is to return the money, collected in the territory. The financial autonomy should be consolidated through the strengthening of the fiscal base in the territory, i.e. those financial assets that, according to the law on local public finances, are collected in the territory, should remain integrally and directly in the given territory.

The law on local public finances, is founded on the principle of financial leveling, which ultimately does not stimulate the collection of income. The fiscal base of the territory should be the important for the size of the expenses. The common argument advanced in the favor of financial decentralization in the accomplishment of efficient allocations regarding different local preferences concerning local public goods and services. When the local public services are provided by the local public administration, the taxes and the packages of benefits must reflect the preferences of local community. If each local government can establish the taxes and the package of benefits in favor of benefits, in favor of citizens from the local community, the efficiency and the social well-being could be maximized.

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<sup>14</sup> The Group was created in 2001 as a result of decentralization and deconcentration (in local governance) interest and importance in Mozambique. At the beginning of the decade many development agencies were supporting the decentralisation process through a variety of activities and projects at various levels.

<sup>15</sup> See Decentralization Working Group. UNDP/UNCDF, DRAFT Maputo, 12/03/2004

## 2 DECENTRALIZATION AND LOCAL GOVERNANCE

Effective local governments are vital to achieving the Millennium Development Goals. One way to increase the effectiveness of local government is through democratic decentralization, which involves a transfer of powers, resources and assets to local government structures. By creating the conditions for more inclusive, accountable and transparent operations, decentralization enhances civil. The potential of democratic decentralization will not be achieved automatically, however, the transfer of powers and resources necessary for local governments to work must go beyond policy to become a fact on the ground.

This chapter defines principles, and responsibilities of the local governments that is consistent with the Constitution and adheres to the principles of the LOLE (*Lei dos Órgãos Locais do Estado*) and the law on SISTAFE, looking at the district as a pivot of development.

### 2.1 GOALS AND PRINCIPLES<sup>16</sup>

Decentralization may entail only the (re) establishment of local administration or it can involve a shift to the local level of a variety of functions and financial resources in a country. When the transfer of authority is sufficient, local governments obtain the political, financial, and administrative autonomy to better address community needs. Local governments can more easily become inclusive and accountable to the public with increased autonomy from the center. Communities can become more pluralistic absent central political control. Through local participation and practices such as public meetings, citizens can participate more effectively in local decision-making, gain experience in democratic processes, and hold local officials responsible for their decisions. In short, democratic local governance and development can emerge.

*The goal of the decentralization is to transfer of power from the central government to local governments, providing effective opportunities for democratic change at the local level and can help improve national democracy as well. In general, the focus is to visualize de local governments to strengthen the representative and local management capacity of local governments and to foster local government as a tool to improve Local Development, and as a tool to raise the efficiency and equity of local participation and decision making.*

***The objectives of the decentralization include:***

- To take full advantage of the opportunity provided by the new legislation to create, promote, and implement a new vision of local government.
- To combine, based on the LOLE, tradition and the vision and goals of local and central officials with the best international experience and models of democratic societies, creating a favorable environment for effective decentralization and democratic local governance, primarily through support for the enactment and implementation of reforms.
- To help local communities establish and maintain democratic systems of governance, primarily by improving transparency and citizen involvement and improving the ability and capacity of local governments to become better administrators, raise revenue, and deliver.

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<sup>16</sup> DLG = Decentralization and Local Governance

## **2.2 OVERALL FUNCTIONS OF GOVERNANCE AT LOCAL LEVEL**

The LOLE defines the basic structure of the system of local government. It emphasizes two levels of local government, the province and the district, which will be decentralized autonomous local public authorities, responsible for delivering public services and goods. The system also includes de-concentrated entities of the National Government. Responsibilities and authority among levels are allocated in such a way to promote a bottom up process of governance.

### **2.2.1 Local Government experiences**

*i. Local Governance as the basic level of local authority. The main characteristics of Local Governance are:*

- They represent and are accountable to the local community. They are responsible for the general welfare of the local community by providing a large range of local public services over which they will have exclusive authority in most cases.
- They possess independent authority to undertake initiatives in the interest of the community. In this respect they will have adequate administrative, service, investment, regulatory, fiscal and property management authority.
- To ensure that they are accountable, they requires establishment of internal control bodies and to implement procedures to ensure transparency and to facilitate the participation of the local community in key decisions.
- Local Governance are endowed with resources commensurate with local functions and responsibilities – (financial, material, property, human) - which they can generate, mobilize and manage. The resources may be of local or national origin.
- Local Governance can associate with other stakeholders in different forms and in full autonomy to organize the delivery of services of mutual interest. They can cooperate and associate with Local Governance in other countries within the limits of the law and the national foreign policies.
- In certain cases, the Local Governance may have the option to decide whether to perform specific delegated functions. In all cases, the national government will provide sufficient additional resources to the Local Governance to pay for the cost of performing the delegated functions (outsourcing).

*International experiences, suggests additional responsibilities and key functions to the Local Governments:*

- Local Governance should have the authority to create administrative bodies in smaller territorial units to bring government and public services as near as possible to the community. Local Governance may establish territorial organizations based on neighborhoods in the urban areas and villages in the rural areas. The representative authority will be the “elders”.
- Two or more Local Governance may undertake common initiatives to improve service delivery to their communities. For example, by mutual agreement, they may set up joint service delivery entities or contract jointly with private suppliers. Local Governance may perform certain other functions by delegation from the national government. Generally, these delegated functions will apply to all communes.

*ii. District as the development pivot. It represents and is composed of a number of communities. The main characteristics of the districts are:*

- They are responsible for coordinating and harmonizing policies among the Local Governance consistent with the regional policies of the National Government (as defined by LOLE). The district can be, in some cases, responsible for the delivery of public goods and services in that are regional in scope.
- They represent the interests of the communities. Accountability of the district is exercised by a district council (CCD – *Conselho Consultivo Distrital*), composed of communal representatives in proportion to the number of inhabitants. The minimum representation is one/two persons per commune, which is the Mayor of the respective commune. The district council is responsible to the local participation & consultation and indirectly to the region's local communities.
- They possess independent authority to undertake initiatives in the interest of the community. The district have adequate administrative, service, investment, regulatory and financial and property management authority, but not fiscal authority. The Local Governance will contribute a fixed share to the local budget. The district is also a recognized legal entity (budgetary unit).
- Districts may perform certain other functions by delegation from the national government. Generally, these delegated functions will apply to all regions. In certain cases, the regions (within the district) may have the option to decide whether to perform specific delegated functions. In all cases, the national government will provide sufficient additional resources to the regions to pay for the cost of performing the delegated functions.

*International experiences, suggests additional responsibilities and key functions to the Local Governments:*

- Districts should have the authority to create administrative bodies in smaller territorial units to bring government and public services as near as possible to the community. Districts may establish territorial organizations at the district level, to harmonize regional policies in this traditional administrative unit as well as to better coordinate initiatives with the National Government in the same territory.
- The District Councils should approve the District Statute in which its responsibilities, arrangements for decision making, internal organization and the responsibilities of internal divisions, are defined according to uniform provisions in the law.
- The council of the region (community or post) can decide, within the limits of the legal framework, in full autonomy in the general interest of the region or in the interest of one or more commune members. In all cases, the decision of the District Council cannot violate the autonomy of any of the Local Governance member of the region without their approval. This larger role of the district will be based on a decision of the District Council within the limits prescribed by law.

### **2.2.2 Internal organization and functioning of local governments**

Reviewing best practices and experiences, there are consensus that Local Governance will adopt their own statute, which regulates the relations among the council, the mayor and the administration, within the following general principles that would be established in the legislation. Experiences suggests that the functioning of local governments:

- The district should exercise all local legislative and fiscal authority. For example, the district approves the local budget, exercises all discretionary authority regarding local taxes and tariffs and ratifies contracts with third parties that create financial obligations or affect local property.
- The administrative body of the commune is composed of civil servants and support staff. The rules and procedures for appointment, promotion, salaries, bonuses and general career advancement of civil servants should approve by the district within general national parameters specified in legislation.
- The local community should be consulted and should participate in the decisions taken by the district of the commune through various means and mechanisms. This may include access to district meetings or participation in specialized commissions or working groups.
- The Local Governance may also conduct polls or surveys to determine local needs and priorities. Subject to general provisions established, the district Council should utilize referendums as a mechanism to allow the local community to participate directly in making certain decisions of local importance.

### **2.2.3 Sectoral Decentralization Criteria**

Once the sector decision has been taken, the decentralization of the provision of services is required and four major criteria are relevant to be answered. A checklist of question can be relevant to support the decision. The key criteria are:

**a) Legitimacy:** Is the sector policy/strategy inclusive? What is the need of the key functions and expected output? Should it be required in the public or private sector and which functions to delegate (outsourcing) with other actors?

**b) Capacity and competence:** Does the sector at local level have required technical and administrative competence and skills to support decentralization at the district and sub-district levels? How would the gap be filled? Are adequate training programmes envisaged to develop such skills for all actors?

**c) Financial sustainability:** What sources of finance are available to take over responsibility to performance the key functions? There are other actors to complement the actions? If the private sector NGOs and other actors are willing to mobilize resources to delivery services?

**d) Accountability:** Is the sector accountable for performance? To whom? Are effective participation mechanism established? They're any monitoring system in place? Local citizens and any person will have full and timely access to all data, activities, policies and decisions of the local government?

## **2.3 MAIN FUNCTIONS AND RESPONSIBILITIES OF LOCAL GOVERNMENT**

The allocation of responsibilities between the local and central government is based on the principle that public services must be provided by that level of government that is closest to the community to ensure maximum effectiveness and efficiency in the performance of the services, as well as accountability to the public.

Based on Albania experience, the functions and responsibilities of local government will be defined in such a way as to make it absolutely clear which of the local bodies is entrusted with a certain function, and is at the same time held responsible for the results and performance. The law shall provide for the detailed list of sectors and sub-sectors of responsibility of local government. Nevertheless, local governments can undertake any initiative at the local level within the local interest, which is not explicitly an exclusive function of any other public authority. Some of the main functions of local governments will be:

### **2.3.1 Public infrastructure and other related services**

This area includes functions such as i) water supply and sewerage, ii) road network, iii) waste management, iii) public lighting, iv) public transport, planning and land management, v) housing, vi) parks and public spaces. Local governments will have authority over the administrative, service, investment and regulatory aspects of these services. They will plan for the extension of services and corresponding investments and making choices regarding technology, standards and norms and financing of the services. The national government may issue general national standards in areas of clear national interest and priority (e.g. minimum standards or health or safety) that do not limit local discretion in areas of clear local interest. In those cases where a local government does not have adequate resources to meet the national standards the national government will provide the necessary support.

The national government may delegate responsibility to local governments for particular aspects of other public services, such as public works, agriculture services, and maintenance of roads. In such cases, the national government will be responsible for providing the resources that local governments require to perform the delegated functions.

### **2.3.2 Social development functions**

This area includes education, public health, culture and tradition, social development, minorities, civil society development and human rights.

- In fields such as local culture and tradition, local government will have full administrative, service, investment and regulatory authority to promote and support local activities and initiatives and local community organizations. They will possess, linked with the respective local public institutions.
- In the fields of education, health, and social assistance, local government can play an important role sharing responsibilities with the national government within national policies defined by law or regulation. Local governments will have administrative, service, investment and partial regulatory authority within well-defined national policies and standards of inputs and outputs. Local governments can allocate resources to meet higher standards in the interest of the local community.

### **2.3.3 Local finances, budgeting and Control**

In order to regulate and administer local affairs under its jurisdiction in an independent way, the local government is entitled to collect and spend revenues under its own authority and at its own discretion. The local government's revenue structure should guarantee self-sufficiency and guided by the Law<sup>17</sup>, should be diversified and respond to economic trends, feasible, simple to collect, and ensure long-term/short-term stability. The local government's revenues consist of: (i) local revenues, and (ii) revenues generated from national revenue sharing.

#### **a) Locally generated revenues**

Locally generated revenues will be i) local taxes, ii) local fees, iii) other revenues generated from economic activities and rents.

**Local taxes** are a very important instrument for the local government's revenues, and at the same time, provide a basic condition for local autonomy. Some main principles for local taxes will include:

- Local taxes will be a closed-ended list. The law will define the list of taxes, the uniform national tax base, and in some cases, the minimum, and/or the maximum tax level, giving the interval of discretion for local governments.
- Local governments have full authority and responsibility to determine the tax level (within the limits of the law), to administer the taxes, to collect or select the tax agent as well as to decide on penalties and their collection (except cases when the tax is more easily collected by the Central tax administration). Local government does not have authority to grant tax holidays.
- Local tax authority is given to the communal council while tax administration is the duty of the communal administration.
- Local taxes will be the tax on property (building and land), tax on small business, hotel tax, tax on donations, inheritance and testaments (if applicable), tax on immovable transactions, tax on animals, tax on personal incomes for local/national lotteries, tax on vehicles, etc.

**Local fees:** Local government will receive all revenues coming from local fees. They are collected by the level, which supplies the service. In all cases, local government has discretion for the manner of collection and administration of the fees. **Local fees** applied to local services classified as:

- Fees for basic public services (water supply, waste) based on the principle of cost recovery, under the full discretion of local government, within general national policies and general principles of public tariffs. In special cases, when the resources cannot ensure the legal minimum standards, the national government will provides support to cover the gap.
- Fees for the right to use a local public good, at the full discretion of local government, accept some national interest public goods (environment) for which there can be minimum national tariffs.
- Fees for documentation, issuing licenses, at the discretion of local government, based on generally accepted principles of public tariffs.

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<sup>17</sup> The Law on Local Finances is described in 1.4.3 b) in accordance with LOLE and SISTAFE. It should provide necessary authority and mechanisms to the local bodies.

**Other revenues.** The local government is also entitled to make use of other sources of income such as economic activity, rentals and sales of properties, donations and interest income. These are secondary because they do not constitute the substantial function of local government. Except for revenues from donations, which are used based on the mutual agreement with the donor, these other revenues are recommended to be used for investments in local public services.

**Borrowing** is a limited resource of local government. Loans can be contracted in the national and local capital markets to finance investments for public purposes. Law within national policies regulates borrowing. This opportunity will develop step-by-step with the improvement and transparency of capital markets and the increase of local management capacity.

### **b) Revenues of national origin**

These sources include: i) shared taxes, ii) unconditional transfers, and iii) conditional transfers. *Shared national taxes* will come through sharing income from specific taxes.

- **Shared taxes** will be the personal income tax (around a 15% share to the communes/municipalities) and company profit tax (around a 5% share to Local Governance and regions). They are collected and distributed by the central authority.
- **Unconditional transfers** will be (i) transfers of vertical compensation based on the ratio of responsibilities and functions between the central authorities and local authorities, for general and untargeted support of expenses for public services and functions of local governments, and (ii) equalization grants to support those local governments that have an insufficient local revenue and resource base. Both types of transfers are based on a clear, simple and stable formula, defined by law, to increase the predictability of local government revenues. The funds are used with full discretion by local governance, in their sphere of responsibilities and functions. Remaining funds can be carried over to the next year expenditures.
- **Conditional transfers** are funded by the national government to achieve regional or national objectives at the local level. Conditional transfers will shift gradually from strict conditions and small projects to more general conditions and larger projects and sectors. The monitoring of outputs rather than the control of inputs will become the focus. Existing conditional transfers for specific expenditure items such as salaries and investments can take the form of block conditional transfers (not specified per item).

The local government's budget is drafted, adopted and administered by the local bodies themselves at the beginning of the fiscal year. The law shall establish the rules on the way the local budget should be managed, while not in the least infringing on the local government's financial autonomy. The council makes the budget approval and modification while budget management is the duty of the executive body of local government.

The authority of the national government is limited to the rules of disbursement of conditional and unconditional transfers, and local government's revenues from national tax shares. The local budget has a unique national structure established by law. The local budget is managed at zero deficits. For some time, the local government will continue to use the State treasury system but procedures will be improved to avoid unnecessary infringement on local autonomy. It serves four central purposes to be taken in consideration:

- a) to improve the quality of outcomes;
- b) to improve resource allocation decisions;
- c) to make those responsible for the process accountable for results; and
- d) to increase the trust of all involved in the process.

### **c) Financial control**

***The district internal control:*** The local government will set up specialized internal control bodies. The law shall establish the authority of the elected local council in relation to the executive body regarding financial control. In cases when a local unit is not able to set up its bodies of control, Local Governance up to a regional level could cooperate for the in creating bodies of internal control. Internal control can be ex-post and ex-ante.

***The provincial control:*** It will exercise external controls, which verify the observance of the laws as well as regulations and decisions issued by the local government itself concerning the use of conditional transfers. In cases of optional delegated functions, the entity that delegates the functions will select the auditor. In terms of external control, the law should explicitly provide for the authority of the agencies of control. Disputes between the local government and the agencies of control will be resolved in court.

### **2.3.4 Local Government property rights**

It was found that the Local government property would be of the “public domain” or “private domain”. For each of these two types, the local governments will have specific property rights recognized by law. Local governments will have the authority to hold, possess, and dispose of “private domain” property. The “public domain” property is not disposable. Property of this type includes: coast, streets, rivers, torrents, administration buildings, parks, monuments, historical squares and other properties which can not be sold or leased.

The “public domain” character of property can be changed. The Law will define the cases when the status “public domain” may be changed into “private domain”. It also will define procedures for such status changes and public agencies authorized to perform these procedures. Local government may own property of two types under current Mozambican legislation: (i) movable property, and (ii) immovable property.

#### **a) Mechanism of acquisition of property**

Local governments may acquire property by: (i) Purchasing the properties, (ii) Exchanging properties with other public agencies, (iii) Establishing enterprises (in which cases the owner could be a single local government or two or more local governments acting jointly, or there may be co-ownership with private agencies), and (iv) Donation

#### **b) Asset management**

Within the limits established by law, local governments should have full discretion regarding property, which they own. In particular, they may decide on property use, may purchase or sell, lease to private and public agencies, exchange, use as collateral, manage packages (portfolios) of intangible property, etc. Regulations regarding these asset management activities should stipulate transparency of decision-making and transactions with public property. Management of property will depend on the type of property and the level of public interest of it. Law will define the rules and procedures.

#### **c) Authority at local level:**

Local governments may also be eligible – under conditions clearly defined by law – for these special mechanisms of property acquisition: (i) Eminent domain for local public purposes, and (ii) Sequestration (mandatory dedication) of a part of private property. The authority for property rights and management will be concentrated in the local elected council which will issue rules for different aspect of decisions.

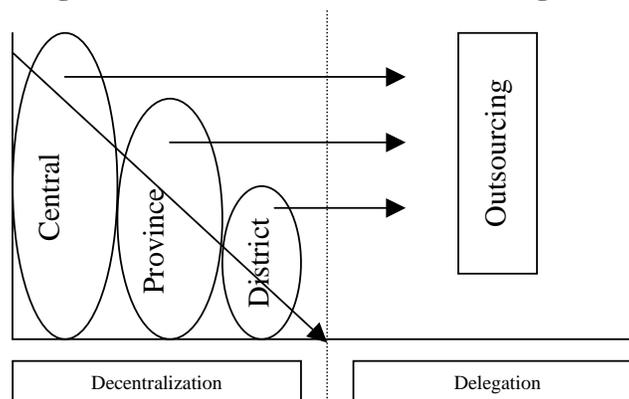
## 2.4 DELEGATION OF FUNCTIONS AND PARTNERSHIP

### 2.4.1 Promoting outsourcing with local actors

Delegation of functions involves the transfer of resources and responsibility for specific task/function from certain level of government to any agency, community or organization. Under delegation, the task of delegated agency and the resources required to implement the task are defined in advances and transferred to the implementer – *outsourcing*<sup>18</sup> *mechanism*. When the local governments delegates functions the authority and the respective supervision role should be guaranteed by the respective government authority to ensure quality control. The local government should:

- Have considerable autonomy of decision on how to implement the tasks (contracting)
- Have authority to define procedures and terms of reference and approval rights locally
- have in its programme of work, budget allocated to outsourcing
- Regularly report on the financial resources received by the delegation agency.

**Figure 2: From decentralization to Delegation**



### 2.4.2 Promote Local Economic Development

Local functions in this area will include: i) small and medium business development, ii) agriculture and agro-industry, iii) trade and services, and iv) issues related to management and protection of natural resource and the environment. Local government generally will have exclusive authority in this area subject to general national and regional policies. Local government will exercise its authority and responsibility in this area through:

- **Regulatory role:** establishing rules and standards, monitoring their implementation, issuing licenses and authorizations, and if necessary, regulating the use of natural resources and the environment.
- **Promotional role:** undertaking promotional activities through policies and instruments as well as funding. (e.g. Technical assistance, services, promoting inter-business community exchange (local and regional fairs) and associations, as well as promote business community participation in policy design.
- **Developer role:** investing and/or supporting investment in infrastructure (e.g. information network, physical infrastructure, irrigation systems), which supports local development.

<sup>18</sup> Outsourcing is the transfer or delegation to an external service provider the operation and day-to-day management of a business process. (see [http://www.outsourcing-law.com/what\\_is\\_outsourcing.htm](http://www.outsourcing-law.com/what_is_outsourcing.htm))

### 3 ACTION PLAN FOR MAINSTREAMING DECENTRALIZATION

#### 3.1 PHASES OF THE REFORM: IMMEDIATE REFORMS

Decentralization is a complex, multi-actor and multi-subject process, which must not necessarily follow a clear and precise sequencing. While the process can be generally divided into different phases where particular emphasis is given first to policy formulation and enactment, later to the transfer of responsibilities and resources, organizational and human resources adjustment, finally to improving capacities for service delivery, and reviewing and fine-tuning policies, it is not possible to draw clear timelines for the distinction of the individual phases.

Consequently, it is not viable for a support strategy to follow a plan segmented in terms of substance and timing, containing interim goals that build upon each other. From the present perspective, it is envisaged to reduce support for policy formulation by the year 2005, as the legal framework should have been consolidated by then. At the same time, activities to support the dissemination of good practices developed. Immediate reform includes some actions and measures, which are possible to achieve in the short term. The main actions in short term will be establishment of strategic actions and definition of immediate changes in local financing.

##### 3.1.1 Harmonize Sectoral & District Development Plans

The implementation of these measures should have a visible impact on local governments and would also be a strong positive signal of real willingness to change on the part of the Government. The changes include:

- Consistency of policy advice at central level with regional/local level experiences, needs and aspirations can be ensured,
- Regional/local level actors are strengthened in order to make best use of the potential benefits of the new decentralization framework,
- Regions through respective institutions and mechanisms can effectively participate in national policy formulation processes.
- Analysis of how local governments have or have not taken advantage of their new discretion in local taxing fee-setting powers; based on results, identify measures which would have a greater impact in improving local revenue raising; based on results of analysis of use of existing local discretion, make other improvements in the local tax system and modify local tariffs;
- Comprehensive and harmonized National vision on Decentralization, defining the key goals and benchmarks (long-term vision and monitoring indicators).

Figure 3: Multi-sectoral planning framework



### **3.1.2 Improving District Finances & Budgeting**

The short-term changes will be to redefine some national taxes as local taxes, to increase the discretion of Local Governments on deciding the tax level through defining by law new scales for tax rate discretion or abolishing the existing limits in some other taxes. Very recently the local tax system was improved in some aspects. Nevertheless, within the existing overall financial system and macroeconomic conditions there is room for some other risk-free modifications which will improve the financial system of local government, will give them more discretion and will constitute an experience for undertaking other major changes in the system. These actions should define on Local Finances:

- Rules for preparing draft budgets, passing the budget, budget implementation and execution, budget modification, control, final closing of budget results;
- Definition / list of the sources of revenue of local government units; details of local taxes/ fees to be included, statement on general principles of autonomy of local government in determining local tax and fee rates, within minimum and/or maximum rates set by law;
- Rules for national shared taxes, including the specific taxes to be shared, percent allocated to local governments, and procedures of how / when funds are transferred to local government accounts;
- Rules for unconditional transfers, including principles and formula for their allocation, procedure of how local governments are informed of amount of transfers, mode of transfers;
- Conditional transfers, including principles for their allocation, use, management and oversight;
- Liability for violating the discipline of local public finances and cash management and relations to treasury system.

### **3.1.3 Organization & Service Delivery provision**

*On organization and relations of the levels of local government* to address issues regarding the functions and organization of regions, districts, de-concentrated entities of national government, profile of technical assistance.

Regarding Local Government, the actions will address other issues linked with internal relations, status and role of the council versus the mayor, the status of civil servants, recruitment, career/promotion, territorial organization of Local Government, modalities of inter-communal cooperation/association. Regarding de-concentrated organs, issues related to their institutional relations (prefecture, departments) with local governments will be studied. The key actions includes:

- Delegated functions - will address issues such as types and list of delegated functions, formulas and norms, process of negotiation and decision, optional delegated functions and mandatory-delegated functions (respective rules and procedures).
- Local public services - will address issues such as standards, fees (formulas and regulations), subsidies, investment needs, profile of technical assistance. Structure of local governments (description of essential elements; general statement of local internal organization, and local option to adapt structure to local needs);
- Special analysis on local police and civil protection - will address issues of the responsibility and authority of the respective bodies, organization, institutional relations with respective

central government bodies, status of staff, relations between local autonomy and national standards and rules of procedures, technical and financial need profile.

- Performance monitoring - The strategy stresses the importance of the accountability of local government to the citizens and to the local community whom they serve. One way to enhance accountability and improve local governance is to institute a system of measuring performance and results at the local level. Performance measurement is an effective means of communication with the specific recipients of local public services and with the community in general.

### **3.1.4 Integration District Planning Tools**

The Government of Mozambique defines the district as the pivot of development. The Law 8/2003 and its regulation (and other complementary legislation) define the principles and modalities of delegated functions based on the Constitution and decentralization framework. Territorial planning will address issues linked with methodologies, regulatory process and procedures, technical assistance profile. The key actions includes:

- The guidelines will define the sphere of authority and responsibility of local government; national standards and methodologies for spatial planning in conformity with development trends and needs and institutional relations.
- Definition of Geographic Information System (GIS) framework and standards. These profiles will help the Government in their dialog with the donors regarding support for the implementation of the decentralization reforms.

### **3.1.5 Developing Local Government Management Capacities**

Development of local government, internal organization, role and organization of the council, rules of procedures, composition, minimum representation, quorums and rules for decision making, the administrative body of the region and model of organization, administrative branches of the district, the process of setting up the region, technical assistance, are some preliminary key issues, but also includes:

- *Local staffing requirements by function* - The expanded functions and responsibilities of local government will require a larger staff. Each of the functions will need a different quantity and quality of staff. A number of studies and pilot projects will be developed to define as best possible these needs.
- *Possible strategies to identify and recruit new staff* - The needs for new staff can be resolved considering that i) local government will have autonomy on staff recruitment ii) staff can be recruited as civil servants, with contractual agreements as budget employees, as employees of public entities, in contractual agreements with non-public suppliers iii) the transfers of responsibilities of local government will modify the role and functions of Central Government and de-concentrated branches which will free up a certain amount of staff who possess experience in the related fields. This staff can be a potential group for recruitment by the local government.
- *Funding the cost of new staff* - The additional staff needs of local government will be financed by different resources such as increased local revenues (taxes, fees, others) and national shared revenues (taxes, transfers). It is important to mention that decentralization will not lead to added costs for staff (or other expenses) if you consider the consolidated expenditures of both local and central government. In fact, it is expected that

decentralization will increase the efficiency of management. Nevertheless there will be many technical and legal aspects to address and resolve in due time make the process as smooth and stable as possible.

- *Training assistance profile* - Increasing local capacities is a very important issue. Adequate structures and opportunities must be created to facilitate and support on-the-job training for elected members and staff technical assistance and exchange of experiences. One objective is to set up the District Information Centers (DICs). This will help define more precisely how the local training should be organized, staffed and funded, what other organizations might be involved in the delivery of training and what type of training would be offered initially.

### **3.1.6 Improving Local Economic Development**

Among the most important actions that should be taken in the short term, is to ensure that the existing state enterprises responsible for providing basic infrastructure services, such as water or solid waste, come under the control of the local governments. Currently, there is great confusion in this area, with some national ministries continuing to exercise effective day-to-day control over some of the enterprises.

Also, it is not clear at this time what the role of the local governments should be in the privatization of these enterprises. Finally, assuming all agree that the enterprises should be under local control, there is no existing legislation that describes either the nature or extent of the local authority over the enterprises or of the procedures by which they should exercise that authority.

This phase will address some crucial issues linked with the institutional status of local governance and local financing to build a comprehensive legal framework for further implementation of the decentralization reform. These actions should define:

- Geographical delineation of local governments (initial delineation of boundaries and method of changing boundaries in the future);
- General description of rights and obligations of local government entity (functions; ownership of property; areas of autonomous decision-making);
- Relationship between local and central government (criteria for “national” and “local matters;” operation of levels of authority; nature of central government oversight).

### **3.1.7 Providing Technical Assistance and Capacity Building**

Once the Law on Local Finances is adopted by Parliament, there will be a need for assistance to ensure the successful implementation of the new system of local finances. This assistance would focus on developing detailed systems and procedures at the local level in the area of financial management in general.

It also would look at the specialized training and skills building for the staff that will be responsible for local finances. There is a need to develop a profile for that assistance, including a statement of work and an estimate of the level of assistance required. In fact, there may be more than one profile. For example, there could be a need for an assistance program just on the issue of local accounting and auditing.

## **3.2 PHASES OF THE REFORM: SUBSEQUENT PHASES**

This phase will address other important issues, which require a longer time frame to be formulated and implemented, consolidated the horizontal (inter-sectoral) and vertical (territorial) planning and budgeting mechanisms and practices, including management and capacity building. The elements of this phase need to complete the policy and sectoral legal framework initially developed in the previous phases. Some major issues will be:

### **3.2.1 Fiscal decentralization policy analysis**

The strategy recommends implementing a system of equalization grants and revenue sharing to complement the resources available to local governments from local taxes and fees. It is very important to look at these measures from the point of view of overall fiscal policy. What is the appropriate share of public revenues that should be available to support local government? How is this share adjusted over time as economic and fiscal circumstances change? In Mozambique, which is still working its way out of a severe fiscal crisis, the analysis will provide an excellent vehicle for a dialog with the Ministry of Finance on the timing and phasing in of the fiscal decentralization measures includes:

- Approval of Law on Local Finances, including its regulation;
- Key financial and budget terms and rules;
- Methods for ensuring openness and transparency of local public finances.

### **3.2.2 Fiscal decentralization technical analysis**

Aside from the fiscal and macroeconomic policy issues, there are numerous technical issues to address in the design of the new system of local finances. These include items such as the mechanism, process and formula for equalization grants, the administration of local taxes and fees, the local budget structure and process, treasury and cash management and audit and financial accountability standards and procedures. At this point in the fiscal decentralization process, the purpose of the analysis is to provide substantive inputs to the law on local finances and to ensure that the new system will be functional in the initial implementation after the law has been adopted.

### **3.2.3 Implementing the new system of local public property**

The review of experiences suggests that the legal package on public property comprises two interrelated laws: The first General Law on Immovable Public Property establishes State ownership of immovable property. In particular, it identifies properties with intrinsic public interest (the “public domain” type) and sets up mechanisms to preserve these interests. It also includes provisions and suggests procedures for registering State property. This law sets forth the principles that should govern ownership, use, possession, and asset management of public property by local governments.

The second law codifies which immovable and movable property should be transferred to local governments, stipulates ownership and user rights of local governments, and defines situations when each of these forms should be used. The task will be to look in detail at this logistical effort, including the number and types of properties affected and what would be required to register them. The results of the analysis would be reflected in a recommended program of assistance to support the implementation of the Law on Local Public Property in the shortest possible time frame. This description of the program of assistance will help the Task Force and the Government in their dialog with the donors regarding support for the implementation of the new system of local public property.

### **3.3 FURTHER ANALYSIS OF THE LEGAL AND ADMINISTRATIVE REFORMS**

The Task Force could not address all the issues that affect local government, as many involve difficult policy and technical issues. Therefore, there will be a need to undertake a series of specialized studies to continue defining the content of the local government reforms. These would include:

#### **3.3.1 Additional local functions (education, health, police, and civil defense)**

These functions are linked with the respective sector reform, in which decentralization is one of the main components. The reforms will incorporate the principles of decentralization and will define the responsibilities and functions of local government in relation to the role of National Government and other public and non-public actors.

Local government shares responsibilities with the national government within national policies. In this respect local government can set up their own bodies (e.g. communal police, inspection bodies or civil security boards).

Issue legal acts and norms, undertake necessary measures for their implementation and allocate the corresponding resources, within clearly defined national standards, norms and procedures. The civil security area includes functions such as public order and civil protection.

#### **3.3.2 Developing the local capacity**

Decentralization will be supported by a large investment in human capital regarding the local staff and local elected council members as well community groups:

- The study will look at how these concepts and techniques might apply to local government in Mozambique and to propose specific measures to implement such a system. The results will be included in the proposed Organic Law, as appropriate.
- The study also will produce a proposed plan of assistance to help local governments implement performance measurement in their communities.

#### **3.3.3 Inventory on Public property**

Once the package of laws on public property have been enacted by Parliament, the next step will be to inventory of the state properties, and then transfer part to the local governments, secure agreement on the lists and register the properties in the name of the corresponding local governments. This will entail a large one-time logistical effort that is beyond the means available to the public sector in general in Mozambique.

## 4 IMPLEMENTING THE STRATEGY FOR DECENTRALIZATION

### 4.1 INTEGRATING DECENTRALIZATION

Decentralization is not an end in itself; it is one of several means being used to achieve priority global development goals. Fighting poverty, hunger and environmental deterioration are just a few of the goals on the world agenda. Decentralization is the means to allow for the participation of people and local governments. Securing good governance is a precondition to the quality growth necessary to achieve global development goals

In pursuit of these goals, several policy guidelines have to be taken in consideration:

- *Begin with an analysis of the current system.* Policy makers can design a better reform strategy if they understand the strengths and weaknesses of the existing system. Such areas as management efficiency, evaluation capacity, effectiveness of information systems and budgeting, and community involvement should be examined.
- *Understand the stated and unstated goals driving reform.* Distinguishing between stated and unstated goals, and understanding the importance of each type of goal to local authorities and other key actors, is critical.
- *Develop a common vision of reform among potentially competing centers of power.* This is essential if collaboration, rather than conflict, is to become the dominant force driving actions. To this end, it is important to initiate an open flow of ideas and information among key actors.
- *Develop a plan that is simple, clear and realistic.* Most decentralization reforms are initiated with the center having only an abstract (or quite unrealistic) plan. Instead, the plan should specify the necessary pre-conditions for change.
- *Conduct an organizational and management analysis early in the process* to determine where in the system specific responsibilities and authority should be assigned. No such assignment should be made until the essential support, including financing and technical training, exists to carry out decisions.
- *Transfer authority incrementally, rather than all at once.* Politicians and policy makers are always attracted to the simultaneous "all-regions-at-once" mode of decentralization because of the potential for quick and dramatic change. However, the complexity of a decentralization program (often coupled with the lack of experience with the process, the unequal distribution of human and material resources, and the existence of both weak and strong regional infrastructure) makes this strategy extraordinarily difficult to execute successfully. An incremental approach, in which various parties adopt change at different rates as they are ready, enables those on a slower track to learn valuable lessons from those on the fast track.
- *Think long-term vision.* Decentralization is not created by passing a law. Rather, it must be built by overcoming a series of challenges at the center and the periphery. Years, rather than weeks or months, usually pass before reform occurs. Some regions may move faster than others at first because they are better prepared to change (for example, they benefit from stronger administrative infrastructures, greater financial resources, or less politicization).

#### **4.1.1 Identifying the key actors, their capacity and interests**

Social assessment is an important tool in identifying key actors and their interests, the social organization, which is in operation, and what aspects need to be strengthened or changed. At the community level, data from social analysis are helpful in identifying local laws, rules, and regulations governing interaction and access to resources. At the institutional level, social assessment becomes an institutional tool to identify the interest and capacity of various service delivery agencies to support community based development. Based on this analysis, either other agencies are drawn in or fundamental reform initiated.

Decentralization will be a process that will have to address various problems and obstacles and identify the adequate means and policies to overcome them. The principle actions in this regard will focus on the following areas:

- At **national level** aims at (i) providing advice to the responsible government authorities as well as inter-agency and inter-ministerial teams in refining the legal framework for decentralization, (ii) supporting the responsible government authorities, inter-ministerial teams and relevant non-governmental institutions in developing and implementing capacity building, (iii) initiatives to support decentralization,
- At **provincial level** will focus on: (i) strengthening the ability of provincial authorities to effectively implement essential inter-district functions, (ii) invigorating the capacity of provincial governments to effectively exercise their supervision and control functions and their ability to facilitate districts in implementing their authorities.
- At **district level** will focus on: (i) effectively implement essential district functions, (ii) They serve as channels of information, provide technical expertise, and deliver inputs. In supporting local institutional development for self-management. In the empowerment approach, field agents are first facilitators, catalysts, and organizers for empowerment.
- At **Community level:** The first ingredients are knowledge and understanding of local needs, and of the existing network of social interaction at the household, group and community level; this knowledge provides the basis for defining the changes needed, both in existing local organizations and in external agencies, to meet specified objectives. Identifying the key actors at both the community and institutional levels is critical. It should not be assumed that the community is the logical unit of interaction with support agencies. Households or groups within a community, individuals within a household, children, women, or those in particular occupations (such as farmers, informal sector workers, and the landless) may prove more appropriate.

#### **4.1.2 Creating a sectoral Coherent and Consistent Legal Framework**

These elements are established by a variety of structural laws that should articulate basic and stable principles, and implementing legislation and regulations. There is a need to ensure that all these separate laws remain consistent one with one another and form a coherent, consistent framework for local government. The highest priority is to prepare the package of laws that will implement the reforms recommended by the strategy. It is important to recognize that the legal framework of the local government system consists of many laws that function together. This framework should cover the following major subject areas:

- Framework of local government organization
- Framework for central-local government fiscal relations
- Framework for operation of local public property and enterprises
- Legislation that elaborates specific powers of local governments

### 4.1.3 Funding the cost of decentralization

The finance functions are of particular importance in decentralization. Choices about expenditures of the budget are also an important part of decentralization. Control over setting and retaining fees is also an important financing function. It is often argued that retention of fees at local levels increases the incentives for local managers to collect fees and to be more responsive to consumer demand.

Related with Resource Generation, is important to answer the following questions (i) Apart from co-participation funds, what are the most important sources of internal funding for districts? Are there taxes or any other type of funds collected to be used to cover the fees in the district? The choice to control revenues/expenditures and to set and retain fees is major instruments of local control. Decentralised Planning and financing programmes are seen as potential tool to improve the capacity of the government to allocate resources at district level. In Mozambique where UNDP/UNCDF and partners (Netherlands, SDC, Norway and Ireland) are funding the programme in Nampula and Cabo Delgado, the experiences from the field are being adopted as national methodologies.

As part of the programme UNCDF/UNDP and partners are providing budget support to the provincial capital investment budget to enable direct fiscal transfers to the district level. The Project<sup>19</sup> has made considerable progress in laying the basis for an efficient, effective and replicable system of participatory decentralized planning and financing at the district level. In particular, the Project has made significant progress towards meeting its immediate objectives and outputs, and is also showing signs of contributing positively to its longer-term development objective of promoting socio-economic development and poverty alleviation in selected rural districts.

**Lessons Learned from Mozambique:** the Project has generated a number of important lessons that can help to inform the wider debates about decentralized planning, as well as the design and implementation of similar programmes in other provinces and districts. In particular, the experiences of the project have highlighted the importance of:

- A long-term time vision (District Development Plans), ensuring that the Project's methodologies and processes for participatory forms of decentralized district planning are firmly embedded, consolidated and institutionalized, before seeking to extend and replicate them in other districts and provinces
- Financial sustainability, increasing administrative and financial responsibilities to the district level, in particular by establishing a local or district development fund (LDF/DDF) and capacity of the districts to collect resources at the district level.
- Elaboration and establishment of a system for the register and control of district revenue. First positive results in some districts in Nampula province, where a transparent financial management system has been established. In some cases district revenue has increased substantially.
- Coordination and partnership at local level with other actors, e.g. NGOs to support and promote capacity building.
- An experimental, flexible and self-critical approach, which learns from its mistakes. Unambiguous commitment and support at the political level from the top leadership at both the provincial and national level.

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<sup>19</sup> [http://www.uncdf.org/english/evaluations/moz98co1\\_midterm.php](http://www.uncdf.org/english/evaluations/moz98co1_midterm.php)

## **4.2 MONITORING THE DECENTRALIZATION PROCESS**

Achievement of the decentralization goals and vision requires long-term actions, which will combine in a coherent and controllable manner the various components, factors, conditions and actors. This will make it possible to achieve the objectives of the strategy in a timely and measurable way.

The decentralization reform will be a measurable process. In this respect the objective is to develop a measurable results achieved through the implementation of the decentralization strategy. This would be used to evaluate the effectiveness of the process, to adjust the strategy as required and to report to the stakeholders and the public in general on the results. On Monitoring and Evaluation at the district level see [Working Paper number 4](#).<sup>20</sup>

### **4.2.1 Development of a comprehensive achievement indicators**

Standardized procedures for quantitatively and qualitative evaluating of decentralization programmes need to be established, especially at the district level where they are usually implemented. The first step towards that objective is to design a set of indicators that can ‘measure’ the various achievements. The second step is to specify data and other information requirements and procedures for estimating the value of the indicators for a specific programme at an appropriate level. The indicators for evaluation at the district level should be as simple as possible. District officials and other users at those levels may not be comfortable with complicated evaluation procedures.

Evaluation would, therefore, need to concentrate primarily on impact assessment of specific projects/programmes. The central objective of evaluation is to assess the impact of the decentralized policies and strategies from a set of outcomes/indicators of performance that is derivable from the stated objectives. Since the outcome may depend on a number of exogenous factors, some of which may be unrelated to the project/programme, an effective impact evaluation would have to derive the net impact of the project from specific outcomes after controlling, to the extent possible, such factors.

### **4.2.2 Quantitative measures of decentralization**

A quantitative measurement of the outcome resulting from measures supported will only be possible to a limited extent, mainly regarding activities on the local level. Besides that, the indicators for this assessment should chiefly be of a qualitative nature, and focus on:

- The extent to which implementing regulations to the decentralization laws are complete and adequate (e.g. local finances, the % of the budget covered by the local resources; % of the total national budget allocated to the districts)
- Number of basic services provided (schools, hospital), and accessibility of basic services (compared distance, today/before; number of beneficiaries).
- The degree to which stakeholders have actively participated in further developing the legal framework for decentralization and local governance, e.g. through the involvement of local government associations in important policy formulation processes;
- The % of funds allocated to the districts compared with total budget (national) and the level of expenditure incurred at district level;

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<sup>20</sup> See Participatory Monitoring & Evaluation at district and local levels: Mechanisms, Evidences and Practices at <http://www.uncdf.org/english/countries/mozambique/index.php>

- The extent to which the “National Framework for Capacity Building to Support Decentralization” is used as reference point for support activities by government institutions and the donors;
- The improvement of service provision by local governments as compared to the pre-decentralization baseline situation (number of public services provided by the local authorities)
- The degree (number) to which stakeholders have actively participated in further developing the legal framework for decentralization and local governance, e.g. through the involvement of local government associations in important policy formulation processes;
- The extent to which the “National Framework for Capacity Building to Support Decentralization” is used as reference point for support activities by government institutions and the donors;
- The way and intensity in which civil society organizations, particularly women and their organizations, are actively involved in regional development planning and other decision making processes on local level;
- The satisfaction of constituents with the performance of parliaments on province and district level in exercising their role by absorbing people’s aspirations, supervising the government and enforcing principles of good local governance.

This component would monitor the process of fiscal decentralization using indicators that look at both the expenditure and revenue side of local finances. For example, an indicator could be local expenditures as a percent of GDP or of general government expenditures. On the revenue side there could be an indicator of "own" local revenues as a percent of total local revenues. "Own" can be defined in two ways.

#### **4.2.3 Qualitative measures**

This is probably the most significant of all the proposed components of the monitoring process. It also is the most difficult to implement. Besides that, the indicators for this assessment should chiefly be of a qualitative nature, and focus on:

- The way and intensity in which civil society organizations, particularly women and their organizations, are actively involved in regional development planning and other decision making processes on local level;
- The satisfaction of constituents with the performance of parliaments on province and district level in exercising their role by absorbing people’s aspirations, supervising the government and enforcing principles of good local governance
- The extent to which implementing regulations to the decentralization laws are complete and adequate;
- The quality of provincial and district governments’ policies reflected in regulations which are in support of local development and service provision, meet the needs of the poor and include efforts to achieve gender equality;
- The improvement of service provision by local governments as compared to the pre-decentralization baseline situation;
- The quality of provincial and district governments’ policies reflected in regulations, which are in support of local development and service provision, meet the needs of the poor and include efforts to achieve gender equality.

### **4.3 PROMOTING ACCOUNTABILITY**

Mechanisms to insure accountability are also important. The fact that group members know that an effective monitoring mechanism is in place can serve as a deterrent to violators and an incentive to others to report violations. Monitoring can focus on payment of tariffs, extraction, and use of resource and performance of group management committees, agency staff, and contractors.

In small groups that live in physical proximity, social pressure through peer monitoring is an important low cost and effective technique. Associations that are riddled with potential violators or spread over large fiscal areas may introduce various policing mechanisms. Others institute transparency and open accounting systems. Poorly functioning groups on the other hand cannot even identify offenses or violations.

Gender differences in roles, authority, power and access to resources are pervasive. In most societies, there are important differences between the roles, needs, networks, skills, and knowledge among men and women. It cannot be assumed that even at the community level, what is appropriate for men is appropriate for women. Nor can it be assumed that programs that reach men will reach or empower women. To increase accountability some programs require that communities certify that staff has completed work satisfactorily; while in others, agency staff are replaced by local people who are sometimes also directly paid by communities.

#### **4.3.1 Benchmarks showing the timing of key reforms**

This component would consist of benchmarks that are linked to the intended reforms and that look at what has been actually achieved through the decentralization. For example, a benchmark could be the point in time when local governments assume full authority over local public services or planning, or when the new independent budget process is authorized. There is a need to define carefully the exact meaning of each benchmark. Once there is a decision on the benchmarks it will be easy to develop the baseline values.

The monitoring of this could be done by the Task Force itself (participatory), perhaps with an independent outside evaluation two or three years into the process of implementing the reforms. Over time, projects in which the linkage between objectives, strategies, and indicators of success are clear and specific are much more likely to remain linked to the community than other projects. For example, an increasing number of projects that depend on well functioning user groups now include the formation and strengthening of viable user organizations as a key objective and an important indicator of success.

Indicators of success send important signals to staff about program priorities. If community involvement, reaching women or the poor, and numbers of functioning systems are not reflected in indicators of success, there is little incentive for staff to change their way of doing things to reach these goals. Almost all projects that adjust as they implement, invest in numerous small studies, which provide feedback on how different approaches are working.

### **4.3.2 Strengthening the direct participation**

One of the obstacles to decentralization is the lack of tradition in this field, which is clear in the low level of sensitivity of local communities towards the local government bodies and continued reliance on the National Government. Increasing the sensitivity of local communities as well as increasing their direct participation is important to respect:

- A first action in this respect will be to involve national and local NGOs in the process of reviewing and disseminating participatory governance and citizen's commitment in development.
- The role of local NGOs will be targeted and promoted through activities, local media, publications, public processes debate, setting up mixed consultative bodies near the local governance organs and the use of referenda.
- Capacitate the community based organization (CBO) and Community Participation and Consultation Institutions (IPCCs).

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**ANNEXES**

**ANNEX 1: Local Taxes**

<b>Type of Taxes</b>	<b>Tax base</b>	<b>Tax Rate</b>	<b>Administration</b>	<b>Collection</b>	<b>Sanctions</b>
Tax on buildings, on land and tax on small business	Decided by law	Local discretion within a national uniform interval of discretion with a +/- % around a fix national level	Local tax administration	Local tax administration or authorized agent	Local tax administration
Tax on testament, on heritage and donations	Decided by law	Fixed nationally	Either national or local tax authority	Either national or local tax authority	Local tax authority based on information provided by the national tax authority
Tax on real estate transactions,  Tax on incomes from local activities (formal and informal),  Vehicle tax	Decided by law	Local discretion above a national minimum	Either national or local tax authority	Either national or local tax authority	Local tax authority based on information provided by the national tax authority
Tax on tourists, Tax on animals, Communal tax	Decided by law	Full local discretion	Local tax administration	Local tax administration	Local tax administration

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**ANNEX 2: Local Tariffs**

Local tariffs	Tariff	Tariff level	Administration	Collection	Decision for sanctions
Public service tariffs (water, sewage, solid waste, heating service (if local), public transport, public lighting)	Uniform national basic standards	Full discretion	Service provider or other agent authorized by the local government	Service provider or other agent authorized by the local government	Service provider with support of local tax authority and police
Tariffs for the right to use a public good (markets, cemetery parking, signs in the public areas, use of public spaces for celebrations or shows)	Uniform national principles	Full local discretion	Local government	Local government	Local government
Tariffs for issuing licenses and documents (construction permits, vehicle registration, land development, certifications and other documents)	Uniform national principles	Full local discretion	Local government	Local government	Local government
hunting permits		Local discretion above a national minimum			

**ANNEX 3:Local Government Property Rights**

Transaction or Operation	Procedures (illustrative options)	Decision - makers	Comment
Exchange with other public agencies	Negotiation	Local Government	
Establishment of enterprise	Local initiative, plus published announcement	Local Government	Should have limitations regarding allowable fields of activity for the enterprises
Tax foreclosure	Special procedures*		Not currently authorized by law
Eminent domain	Special procedures*		Limited to property that is of local public interest and to a limited number of cases that is recognized to central government. The juridical and physical person has the right to protest in court only for property value, while eminent domain could be interpreted only in constitutional Court.
Own use or real estate by governmental departments and agencies	Property management	Local Government	
Lease to private parties	Open advertisement plus highest bid accepted or auctions	Local Government	The procedures need to address possible negative impacts on property market and need to ensure that the transaction is consistent with the basic functions of local government.

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Concession to private parties	Open advertisement plus closed tender or negotiations	Local Government	
Contribution to assets of enterprises owned by a local government	Local initiative, plus published announcement	Local Government	
Holding intangible property portfolio (obligations, bonds etc)	Portfolio management	Local Government	
Use as collateral	Local initiative, plus published announcement	Local Government	
Sale	Open competitive procedures (auctions, open tenders)	Local Government	
Privatization	Special procedures*		
Enterprise liquidation	Local initiative, plus published announcement	Local Government	

Note: \* Procedures for implementing this function have yet to be defined. This might affect local government authority in this area.

**ANNEX 4: Local responsibility for infrastructure and public services**

Area of responsibility	Responsibility and of Authority for the Sector
	Public infrastructure and services
Water supply and sewerage	Local government has full responsibility and possesses all necessary administrative, service, investment and regulatory authority.
Road network	Local government has full responsibility for road network at its level (municipal and communal roads) and possesses full administrative, service, investment and regulatory authority. Other responsibilities and authority can be delegated for the maintenance of roads of other levels of government.
Waste management	Local government has full responsibility and authority to provide waste collection, transport and treatment services, within some national standards and procedures.
Electric supply and public lighting	Regulatory authority for related urban planning and construction issues. In the framework of privatization of electric supply system, commune can act as distributor in contractual agreement with national operator.
Telecommunication	Can act as local service provider in contractual agreement with national operator, or to have a say in selection process in the framework of privatization.
Public transport	Local government has full responsibility and possesses all necessary administrative, service, investment and regulatory authority for urban transport service. For inter-urban transport, only regulatory authority.
Heating	Does not have responsibility, except for communal and dependent institutions or as a support for poverty, but decides itself the ways and instruments. Has the responsibility and regulatory authority to ensure quality of energy sources (issues licenses, decides on standards and norms).

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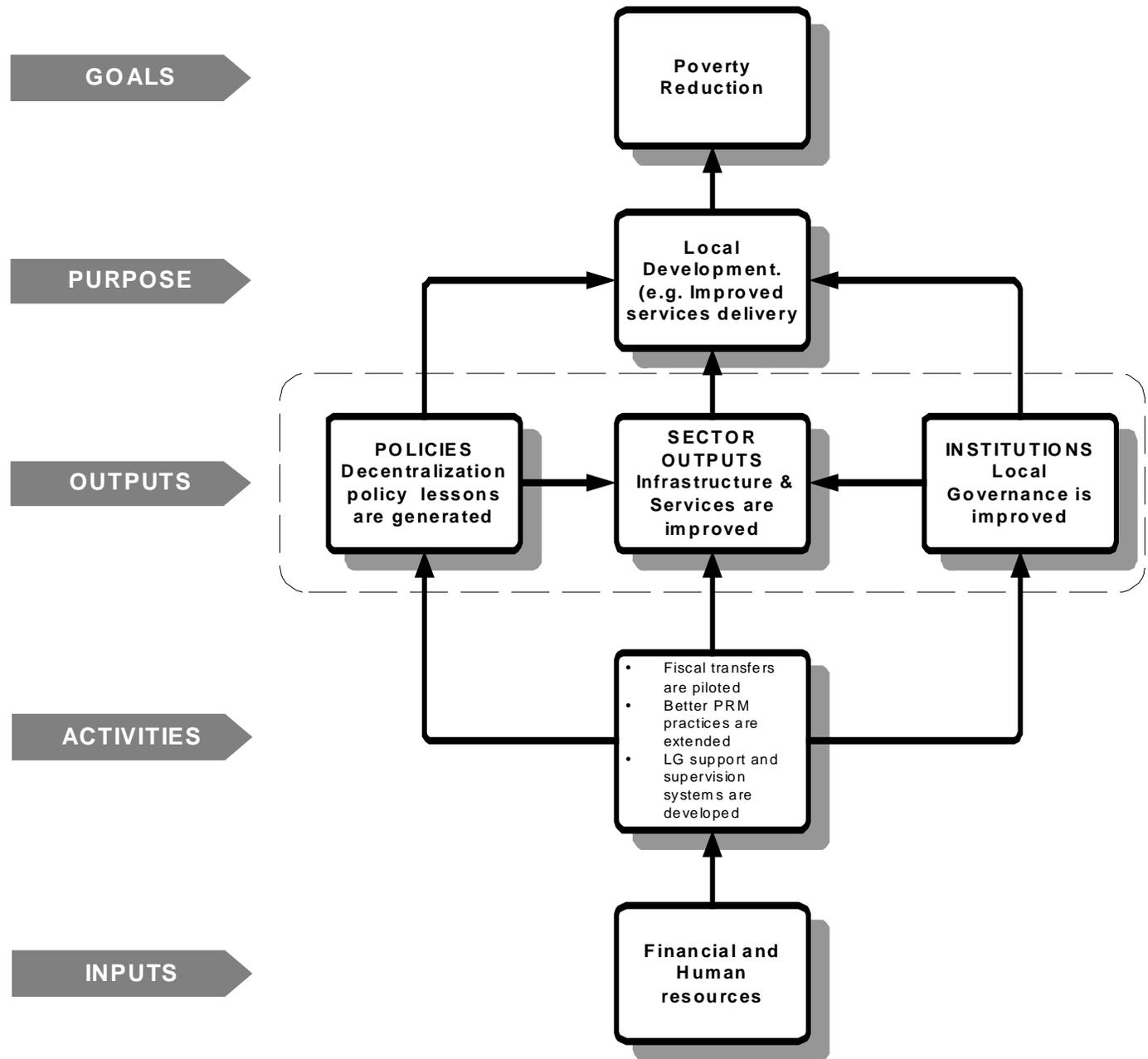
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Urban planning and land management.	Local government has primary and exclusive responsibility in its territory and possesses all necessary administrative, service, investment and regulatory authority. Issues norms and standards applicable within its territory, in addition to national norms and standards.
Housing	«Responsibility to assist in providing housing for social groups based on national criteria. Full administrative, service and investment authority, and shared regulatory authority. (Follows general national policies)
	Community social development and services
Education	Responsibility to ensure the normal functioning of local education institutions. Shared administrative authority (employs only non-professional personnel), investment responsibility for maintenance and reconstruction of school buildings- Including financial means.
Public Health	Responsibility to ensure primary health care service as well as local hospitals. Limited administrative authority (employs non-professional personnel), service, investment and regulatory authority. Authority shared with other local, regional and national actors.
Culture; and tradition	Full legal and/or promotional responsibility for organization of activities and management of cultural institutions; Full administrative, service, investment and regulatory authority.
Social development. Supporting social groups	Responsibility for community social development policies; promotional role. Ensures support for marginal social groups (poor people, orphans, elderly, drug dependents, unemployed), ethnic minorities. Develops its own programs or exercises delegated or contractual functions for central institutions and donors programs. Depending on the case, full or limited administrative, service, investment and regulatory authority.

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Business development	<p>Local Economic Development</p> <p>Undertakes promotional initiatives for business development, supports investment in hard and soft networks, promotes national and international activities, issues rules and standards for procedures, registering, licenses etc.</p>
Agriculture development	<p>Promotes economic activities, supports and/or supplies extension services, supports training and information, invests and/or supports investment in productive infrastructure (irrigation e.g.), manages and/or regulates the regime for use of natural resources such as water, fauna and flora, agricultural land. Takes various initiatives within national policies and standards.</p>
Public order	<p>Civil protection</p> <p>Issues rules and norms for public order and sets up local bodies for enforcement and monitoring of their implementation. Can set up local police with a minimal role to enforce local governance orders and acts, but can have responsibility in other aspects of public order such as road traffic, public order. Can be active under clear norms against crime. In this respect, possesses full autonomy within clearly defined national standards and legal norms regarding structures, quality of personnel, procedures and methodologies. Can cooperate with other public order forces. This extended responsibility will be a long-term optional goal.</p>
Civil protection	<p>Local governments are the first public institution responsible for civil protection in cases of natural, social or technological disasters. Authority to issue rules, to undertake preventive measures, to set up specialized bodies, to cooperate with other local and/or national bodies when the risk exceeds local capacities.</p>



Source: UNCDF