

Suggested Discussion Points for Strategic Engagement of [Region X] [Urban unit] in Ruritania: 2011–2015

I. Country context

1. **Population and administrative structure:** Ruritania is a country of about 74 million people (16 % urban and 84% rural). The urban population has been growing by more than 4% per annum since the early 1990s and, based on UN projections, will exceed 30% of the total population before 2020. The country established a system of federal government in 1995. There are nine decentralized regional states and two city administrations, with major differences in agro-ecology and community structures.¹ Overall, there are 834 local government administrations (715 districts, called smudjas, and 119 urban administrations).
2. **Decentralization is playing a critical role in the delivery of basic services.** The smudjas and urban administrations are considered the key level of local government units in each region of the country, with significant constitutional autonomy and responsibility for delivering basic services. The legal basis for devolution of power is thus in place. However, in practice, the process of increasing accountability of service providers to beneficiaries and encouraging communities to engage as active partners in service delivery has become a formidable task.

II. Government Development Strategy

3. Under its two poverty reduction strategies, the Sustainable Development and Poverty Reduction program (SDPRP) and the Plan for Accelerated and Sustained Development to End Poverty (PASDEP), Ruritania has achieved significant results in economic growth and provision of basic services, with an important emphasis on decentralization and good governance.² PASDEP advocates pursuing the strategy of Agricultural Development Led Industrialization (ADLI), but with a more balanced approach to urban development.
4. Under PASDEP, the Urban Development Strategy is to provide efficient and effective public services to urban residents, with particular emphasis on four pillars³: Through the Universal Access Program (UAP) for water supply and sanitation services, PASDEP aims to provide clean potable water and improved sanitation to the entire population by 2012.

III. Challenges

5. The economy has achieved unprecedented growth during the last seven years due to heavy investment in physical infrastructure and human resources over the last decade. Through massive increases in pro-poor spending at the lower level, essential infrastructure has been put in place for water supply, basic education, primary health care, and agricultural extension services.
6. However, sustaining this growth and service delivery takeoff registered over the last seven years remains a big challenge. Specific challenges include, but are not limited to, the following: weak capacity and incentive

¹ The nine regional states are A, B, C, D, E, F, G and H, I, and J) and two city administrations—Bigtown and Northtown.

² Decentralization, first to the regional, and now to the levels of the smudjas and urban administrations (i.e., local governments) as well as to the krenteen levels, remains the centerpiece of Ruritania's strategy to improve responsiveness and flexibility in service delivery, increase local participation, and democratize decisionmaking.

³ The four pillars are (i) support for micro and small enterprises and job creation, (ii) integrated housing development, (iii) improved access to land infrastructure, transport, and services, and (iv) promoting urban-rural and urban-urban linkages. A priority that cuts across all four pillars is the ongoing effort to strengthen urban governance.

structure; weak infrastructure management and coverage; weak land markets; citizens remain largely passive beneficiaries of public service delivery; urban poverty, youth unemployment are on the rise; lack of adequate and reliable sector data combined with weak and lack of result based M&E. [Descriptions omitted for brevity.]]

IV. Bank involvement in decentralization and local government

7. The Bank is supporting Ruritania in achieving four main strategic objectives, consistent with PASDEP: (i) fostering economic growth, (ii) improving access to and quality of basic service delivery, (iii) reducing vulnerability, and (iv) fostering improved governance. The Bank's assistance is a hybrid of projectized and programmatic interventions in support of the four strategic pillars. Most of the Bank's operations provide funding at sub-national levels, using a wide array of instruments, which actually overstretch local capacity and increase transaction cost.
8. The Bank has been instrumental in working with GOR to establish an intergovernmental fiscal architecture as part of addressing the above challenges at sub-national levels: Regional Block Grant, Regional Specific Purpose Grant (as part of PSCAP). Pilot Local Investment Grant (LIG). Specific Purpose Grant (SPG) as part of the ULGDP for urban local governments, Water Supply and Sanitation Project (WSSP). [Descriptions omitted.]

V. Proposed strategic focus

9. In this context, [Region X][Urban unit]'s support for decentralization and local government/urban development in the next three to five years will need to build on the past activities as well as initiate new interventions. The following are envisaged:
 - **Scale up the Pilot Local Investment Grant, which will form an integral part of the government's intergovernmental fiscal system.** GOR is not inherently enthusiastic about establishing a specific purpose grant and providing earmarked capital resources directly to smudjas. If LIG were not linked to PBS, it would likely not get IDA funding for the pilot. But as part of PBS, it provides an opportunity to test, refine, and strengthen the local smudja capital investment systems. A serious dialogue is required with GOE and donors to scale up and use this integrated and multi-sector approach, which helps to strengthen the planning/budgeting, procurement, FM, and safeguard processes at local levels.
 - Review and follow up on **ULGDP**, extending support to other cities.
 - **Introduce local government and water utility borrowing from domestic commercial banks,** ULGDP and the Urban Water Supply and Sanitation project are laying the foundation for cities and utilities to become creditworthy and better placed to access capital markets in the future. Dialogue on policy and institutional constraints to introduce commercial borrowing should be addressed over the coming three to five years.
 - Continued collaboration with the **Regional PSCAP SPG**, which continues to support capacity building at regional and local levels.
 - A Bigtown-focused intervention (partly following on from and useful findings the Bigtown's Untapped Growth Potential Study being done by PREM).
 - Move to SWAP in the support of water supply, sanitation, and hygiene
 - Continue to provide **technical assistance and knowledge in key areas** requiring special focus, like decentralization and capacity building, land and housing, innovative management to rural water supply, creating enabling environment for PSP in utility management, etc, through dialogue and capacity building.
10. **Opportunities:** GOR is preparing its third PASDEP (2010/11–2014/15), and the Bank is also preparing the next CAS (2012-2014), and this is an opportune moment to position [RegionX][Urban unit]'s strategy in the next CAS.