

# Strengthening Local Governance and Decentralization: Lessons and Experiences from Local Government Associations in Asia



This publication highlights the role local government associations (LGAs) play in strengthening local governance and ultimately improving quality of life. It presents a series of initiatives that LGAs in Asia have undertaken to enhance their own viability and financial sustainability while improving the services they provide to their member local governments. These services range from policy, advocacy and intergovernmental relations on issues affecting local governments, to training and knowledge dissemination.

The publication aims to support knowledge sharing among LGAs, their constituencies and regional and global local governance networks.

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## INTRODUCTION

*In Asia, decentralization is a relatively new phenomenon. Local governments struggle with limited resources and capacity to meet their growing responsibilities in providing local services related to the environment, public health, and infrastructure, not to mention providing an enabling environment for social and economic development to flourish in their communities. At the same time, many local government associations (LGAs) in Asia are less than a decade old and are gradually building their own capacity to facilitate collaboration among their members and represent their interests.*

*Since 2008, the Federation of Canadian Municipalities (FCM) and the International Cooperation Agency of the Association of Netherlands Municipalities (VNG International) have collaborated on the development and implementation of annual Asia regional workshops that have involved a total of 14 LGAs, all partners of FCM and VNG International, as well as the Asia-Pacific Regional Chapter of United Cities and Local Governments (UCLG-ASPAC). The meetings have provided knowledge sharing opportunities and have included capacity building workshops in two key priority areas identified by the LGAs — LGA financial sustainability and LGA advocacy.*

*This publication was developed to support knowledge sharing among Asian LGAs at the March 2010 Asia regional workshop organized by FCM and VNG International. It presents a series of case studies of initiatives that LGAs have undertaken to enhance their financial sustainability and their capacity to undertake policy research and advocacy. It also includes other good LGA practices that have been undertaken to improve member services and to strengthen the local government sector through the replication of successful pilot projects. Participating LGAs will have the opportunity to exchange on these issues at the workshop, and this publication will also enable them to share this experience more broadly with their constituencies in their own countries and in regional and global local government networks.*

*The publication is organized according to four broad themes. The first theme looks at initiatives undertaken to strengthen policy research and advocacy. In this section, the League of Cities of the Philippines (LCP) describes the results achieved to date with the establishment of a Policy*

*and Advocacy Unit within the LCP Secretariat. The Local Councils Association of the Punjab (LCAP) case study looks at measures this association has taken to save the local government system in Pakistan. The case study of the Province of Aceh's (Indonesia) Communication Forum of Local Governments and Legislatures (FKKA) describes the advocacy work that has been done to provide greater autonomy to local governments in the implementation of the Aceh Special Autonomy Fund and Additional Oil and Gas Shared Earning Fund.*

*The second broad theme looks at the issue of LGA financial sustainability. The initiatives of two Indonesian LGAs are highlighted. The Association of Indonesian District Councils (ADKASI) has developed a revenue-generating learning centre to build capacity of its members, while the FKKA (see above) has been quite successful in soliciting member dues to support its operations.*

*The third section explores some innovative measures that LGAs have taken to improve member services. The League of Municipalities of the Philippines (LMP) has created a Mayor's Development Center to respond to the felt needs of its member municipalities for in-house capacity building programs. In Sri Lanka, the Young Councillors National Platform (YCNP) has been established under the guidance and support of the Federation of Sri Lankan Local Government Authorities (FSLGA), to provide a forum for young councillors to discuss common issues and concerns. The Cambodia National League of Communes and Sangkats (NLC/S) has designed two series of fora to strengthen local councils and facilitate local problem-solving, as well as improve intergovernmental relations.*

*Finally, the fourth theme provides two examples of LGAs taking a lead role in scaling up, or replicating good local governance practices that were initially piloted in one or a limited number of municipalities. The Association of Cities of Vietnam (ACVN) has been working to scale up a successful pilot project on land management and revenue generation in Nam Dinh City that has strengthened and improved transparency of local governance. In another case, the Municipal Association of Nepal (MuAN) has been playing an important role in scaling up the introduction of an integrated property tax system at the municipal level.*



*City mayors taking a united stand against the unwarranted conversion of municipalities to cities.*

## **SECTION 1: STRENGTHENING THE POLICY RESEARCH AND ADVOCACY ROLE OF LGAs**

### **Case Study 1: The League of Cities of the Philippines (LCP)**

#### **Promoting the Interests of Philippine Cities through Strong Policy Development and Advocacy**

##### **Summary**

The League of Cities of the Philippines (LCP) has risen up to the challenge of the time by becoming more proactive in policy formulation and advocacy work on various issues affecting cities. In May 2005, LCP created a Policy Unit, making it the first LGA in the Philippines to create a unit solely devoted to policy development and advocacy.<sup>1</sup> This paradigm shift fueled the League's commitment to tackle a new approach in local governance.

Through lessons learned from capacity building support provided by FCM and the Union of British Columbia Municipalities (UBCM), Canada, LCP ran a successful campaign to reverse 16 cityhood bills passed in the Philippines House of Representatives, which were deemed unfavourable to LCP member cities. The success of its advocacy work has crystallized for LCP the importance of undertaking strong, unified and highly participatory policy development and advocacy work to advance the interests of its members.

##### **Introduction**

Prior to the enactment of the Local Government Code, which gave birth to the autonomy of local government units (LGUs) in the Philippines, it was Executive Order No. 262 signed by former President Corazon Aquino on July 25, 1987 that created the League of City Mayors of the Philippines. However, this new framework inadequately devolved national government functions and allotment of corresponding funds to the local level, leading the LGUs — provinces, cities, municipalities and barangays — and Local Chief Executives (LCEs), to clamour for genuine reforms that would empower the LGUs.

<sup>1</sup> There are four major local government associations in the Philippines: one for provinces, one for cities, one for municipalities, and one for barangays. Other than these four, there are several leagues, such as the vice-mayors' league, vice-governors' league, and councillors' league.

After years of hard advocacy work, Congress, on October 10, 1991, passed the Republic Act 7160, also known as the Local Government Code (LGC) of 1991. The Code became the “Bible” to Philippine LGUs. Section 499 of the Code institutionalized the League of Cities for the primary purpose of ventilating, articulating and crystallizing issues affecting city government administration.

The change in classification transformed the character of LCP from an organization of political personalities to a membership-based institution for which the cities — and not their political leaders — serve as the responsible entities. The LCP has a General Assembly, which is the highest decision-making body and a National Executive Board, which is the policy-making body. The National Executive Board is comprised of 42 members elected by the General Assembly and the LCP National Secretariat, and is jointly supervised by the president and the secretary general. Over the years, the League’s services have evolved from administrative to policy, technical and program support.

### **Issue and Approach: The Creation of the Policy and Advocacy Unit**

The passage of several laws resulted in the creation of additional unfunded mandates and the unwarranted conversion of municipalities to cities.<sup>2</sup> These events led the LCP National Executive Board to adopt a Policy Development and Advocacy Plan in 2005, which sought to address the critical gap in LCP’s efforts to make a strong presence in the arena of crafting and advocating for legislative and executive policies, both at the national and local levels of government. This in turn led to the creation of the Policy and Advocacy Unit within the LCP Secretariat.

The primary purpose of the Policy and Advocacy Unit is to promote the interest and welfare of member cities through policy studies and advocacy work. This is done under the general framework of engendering genuine local autonomy and development, and providing a cohesive force that embodies the sentiments and aspirations of member cities. The end goal is to promote decentralized urban governance through appropriate policy legislation and supportive policy implementation mechanisms. The Unit also serves as a policy forum and feedback

mechanism on policy and legislation and supports policy development in member cities.

### ***Strengthening the Capacity for Policy Development and Advocacy***

In March 2005, the LCP, together with the League of Municipalities of the Philippines (LMP),<sup>3</sup> entered into a Memorandum of Understanding (MOU) with FCM and UBCM to build the capacity of the Unit. Capacity-building seminars and workshops were (and are currently) provided to the Unit’s staff as part of this process. Through the MOU, a series of technical exchange missions were conducted, including missions involving UBCM officials and key policy staff who visited the Philippines to assess the League’s current policy development and advocacy capacity, and who eventually provided the Policy Unit with the needed technical assistance. Another technical mission was a three-week internship program that involved one policy staff of LCP and one city mayor. They took part in the UBCM annual convention to gain insight into how to organize a conference, address resolutions and policy, and interact with members. In January 2007, the League held its first ever National Convention of Cities, modeled after the annual UBCM Convention.

Eager to learn more, LCP has continued to reinvent and develop itself. Along with the training provided by FCM and UBCM, LCP staff also undertook a series of policy workshops with support from the Local Government Support Program (LGSP), a bilateral program funded by the Canadian International Development Agency set up to strengthen local governance in the Philippines. The workshops sought to improve the capacity of the staff in the areas of policy development and advocacy.

The lessons culled from the FCM partnership and continuous capacity building programs have given LCP the edge in proactively advancing the interests of its members, in particular in articulating the issues that affect LGUs, especially cities.

### **Results: The Fight Against Unwarranted Conversion of Municipalities to Cities: A Successful Advocacy Initiative**

In early 2005, 16 cityhood bills were passed in the Philippines House of Representatives without complying with the requirements of the Local Government Code. The bills were

<sup>2</sup> The municipalities are unqualified to be converted into cities under the criteria set forth in legislation (RA 9009). Unfunded mandates include laws, executive orders and other policies that increase the functions and services of LGUs but do not include the necessary funding for implementation. Many cities were concerned because the “incentives for the action” is the portion of the internal revenue allotment (IRA) that would be taken from the current 120 cities and provided to the new 16 cities, without increasing the overall size of the IRA.

<sup>3</sup> LMP differs from LCP in that it caters to municipalities as opposed to cities. Both LGAs have similar organizational structures and functions and advocacy issues.



*City mayors revving up the information drive and bringing their advocacy to the media.*

transmitted to the Senate for approval. This went unnoticed by LCP and the impending approval of the bill caught LCP officials by surprise. LCP's Policy and Advocacy Unit then launched a campaign against the bills, successfully applying what it learned through its partnership with FCM and UBCM, as well as the various capacity-building activities it has undertaken with different partners.

The first order of the day was to block the passage of the cityhood bills. The initial step taken was to mobilize all LCP member cities to call for the outright rejection of the bill. LCP also called on member cities to pass a city council resolution opposing the bills. A total of 96 city council resolutions were passed and were forwarded to the Senate. The huge response from member cities was unprecedented in the history of LCP.

The Unit also mobilized the city mayors to attend the Senate committee hearing. During the hearing, the League president made known its members' vehement opposition to the bills. He was accompanied by 80 city mayors who also individually lobbied the Senators.

The Unit was also responsible for preparing LCP's position paper, advocacy and communication materials and presentations, as well as for coordinating media relations.

Across the Philippines, cities revved up their information drive to their constituents regarding the perceived long-term effects of the undue creation of unqualified cities. Localized banners and streamers were posted in conspicuous areas in the city proper showing their indignation. Both local and national media gave full coverage of the issue. City officials and

employees wore black arm bands during their Monday flag-raising ceremonies.

Despite these efforts, the cityhood bills were approved and forwarded to the Office of the President. LCP made a final lobbying effort with the President to veto the bills.

The president did not sign the bills, but they nonetheless became law after 30 days.

LCP took a last resort and filed a case before the Supreme Court to declare the cityhood laws unconstitutional. In May 2009, the Supreme Court declared with finality the unconstitutionality of the cityhood laws.

Two more cityhood bills are currently pending in the 14th Congress, one of which seeks to exempt capital towns of provinces without cities from the requirements of cityhood; the other is an attempt to nullify the 16 cityhood laws through legislation (following the Supreme Court declaring them unconstitutional).

With support from LCP's Policy and Advocacy Unit, LCP has also undertaken advocacy in other areas quite successfully. A couple of examples are outlined below.

#### ***Executive Order 646***

As part of its revenue mobilization efforts, LCP also intensified its advocacy with the Department of Finance and Bureau of Internal Revenue (BIR) for improved information sharing between the BIR and LGUs. This paved the way for the issuance of Executive Order 646, which was signed by President Gloria Macapagal Arroyo in August of 2007.

EO 646 mandated the sharing or exchange of taxpayers' information between the BIR and LGUs, vital to the effective collection of taxes. The issuance of EO 646 helped both the BIR and the LGUs in their collection efforts through access to correct information that they have on record with regards to their respective taxpayers. As a result, both the BIR and LGUs were able to ascertain and assess the correct tax returns and evaluate taxpayers' compliance with existing tax laws.

#### ***Executive Order 809***

LCP also lobbied for the possibility of developing a facility that would lend to LGUs without sovereign guarantee. The League initiated discussions on this issue with the World Bank, the International Finance Corporation and the Asian Development Bank (ADB). All three agencies have established facilities for sub-national lending.

The efforts of LCP paid off in 2009, when President Arroyo issued EO 809 providing for a LGU Financing Policy Framework in the Philippines. The Framework enables LGUs to have greater access to development financing, whereby lower income LGUs have greater access to Municipal Development Fund financing, moderately creditworthy LGUs have greater access to government financial institution financing, and first-tier LGUs (most creditworthy) have direct access to domestic or international commercial or other financing.

Previously, local governments could not borrow directly from multilateral financing institutions and instead applications were channeled through the national government. Under the new financing framework, LGUs have been given the authority to directly contract loans not only with various government financial institutions but with other multilateral financial institutions as well, like the ADB and the World Bank.

The financial flexibility accorded to LGUs through EO 809 has been crucial in accessing additional sources of revenue for the continued implementation of local programs and projects in the light of the global financial crisis, which forced the national government to reallocate and prioritize its resources.

### Lessons Learned

The successful campaign against the 16 cityhood laws was a hard earned victory for LCP. LCP now realizes that to achieve its vision and mission, it needs to undertake strong, unified and highly participatory policy development and advocacy work.

### The Way Forward

Following the establishment of its Policy and Advocacy Unit, LCP has gone from being a passive organization upon its inception in 2005 to becoming an institution with a strong voice in the national policy arena, one that champions the issues affecting cities. With the unwavering support and cooperation of its member cities, LCP has truly become more proactive in the pursuit of its mission “to ventilate, articulate, and crystallize issues affecting cities.”

LCP is now known for its successful advocacy and involvement in policy formulation and legislation in the country, and is being tapped by different national government agencies, development partners and international organizations as a resource institution on various issues concerning local government and urban governance.

## Case Study 2: Local Councils Association of the Punjab (LCAP)

### “Save the Local Governments” Campaign in Pakistan

#### Summary

The Local Councils Association of the Punjab (LCAP), being the only representative association of the local government (LG) elected officials in Pakistan, initiated a country wide campaign called “Save the Local Governments” following a federal government initiative to abolish the democratic LG system. The objective of the campaign was to stop the government in taking any illegal and unconstitutional step that would jeopardize the existence, continuation and promotion of the LG system in Pakistan.

Due to the strong public pressure and voice of local governments led by LCAP, the government was compelled to delay its decision of abolishing the LG system, and was forced to announce that local governments would complete their four year tenure. The local governments completed their tenure on October 16, 2009, and were given an extension to December 31, 2009.

As of January 1, 2010, local governments have come under the jurisdiction of the province in Pakistan. LCAP and three newly formed provincial level LGAs met in Islamabad in December and have agreed to maintain pressure on the provincial and federal governments to announce and schedule LG elections and ensure the continuity of the existing LG system, still currently under threat. There is a great deal of public support



*Protest sit-in demanding democratic local government in front of Punjab National Assembly.*



*People passing a resolution in favour of democratic local governments in Islamabad.*

to maintain a democratically elected system of local government that devolves resources and power to the local level.

### **Introduction**

A democratic local government (LG) system was introduced in Pakistan in 2001, but since the general election of February 2008, the system has been under threat. The 2008 general election resulted in a coalition government being formed by two leading political parties of Pakistan. The Pakistan Peoples' Party (PPP) received a mandate in the center, while the Pakistan Muslim League Nawaz (PMLN) formed a government in the province of Punjab. The coalition party of the government — the Pakistan Muslim League (PMLN) — was adamant to abolish the LG system under the guise of reform, because they considered it a legacy of the previous Musharaf government.

The prime minister of Pakistan held a meeting with all chief ministers and LG ministers and they unanimously forwarded a request to the president of Pakistan, in which they requested curtailing the length of the Local Governments tenure, appointing LG administrators (bureaucrats) in place of the nazims (mayors), and proposing a new LG system.

Given the unfavorable political scenario for the local government system, LCAP, as the only representative association of local government in Pakistan, launched a nationwide campaign called "Save the Local Governments Campaign" in March 2009. The goal of the campaign was to ensure the continuity of the existing democratic LG system in the country.

LCAP is a representative association of the 3,643 local councils of the province of the Punjab, and is a registered non-governmental organization under Pakistan's Societies Act 1860. At the present time, LCAP has a provincial office headed by a provincial director, with one additional management staff (program coordinator) and two support staff. LCAP conducts its activities with members through 35 district executive committees (DECs), representing all districts in the province, and 144 tehsil/town liaison committees (TLCs). The DECs and TLCs are comprised of local elected personnel who work voluntarily in the province. LCAP also represents 3,464 Union Councils.

## Issues and Approach

In its efforts to reverse the federal government's abolishment of the LG system, LCAP's campaign focused on the following three main issues and demands:

1. Immediate announcement of an LG election by the government, under the Election Commission of Pakistan;
2. Deeming unacceptable the appointment of LG administrators instead of LG elected representatives; and
3. Extending the term of local governments until new elections are held.

These objectives have had to be somewhat flexible as the strategy of the national government on local government has changed regularly.

The campaign started with arranging district level LG conventions in all 35 districts of the Punjab province to create awareness about the LG issues, to show solidarity of LGs in supporting the LG system, and to provide a forum for local representatives to present their demands. Among the materials produced, LCAP officials drafted and printed documents that contained the legal clause from the Local Government Ordinance (LGO) 2001 and Constitution of Pakistan, through which they de-

monstrated that abolishing the LG system would be both illegal and unconstitutional.

Rallies, walks and sit-ins were also arranged in support of the LG system throughout the country. LCAP officials had meetings with key parliamentarians and donors during which they presented their demands about the LG system. Seminars and debates were also organized at all levels of the campaign. These activities were complemented by print and electronic media coverage to raise public awareness of the campaign and related activities. There were regular advertisements published in almost all the major newspapers of the country, as well as radio programs.

While LCAP has well-equipped district offices in each of the districts of the province of the Punjab, it was still a major challenge to provide a platform to its members in these trying circumstances. LCAP therefore also involved LG representatives of the other three provinces in conducting activities. It was highly encouraging that LG representatives all over Pakistan felt ownership over the campaign, to the extent that when there was a scarcity of the resources, the LG representatives made personal contributions.

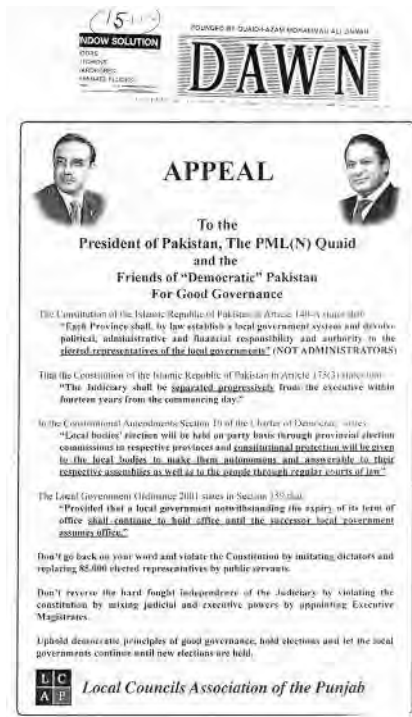
Civil society organizations (CSOs) have also come out strongly in support of the campaign. The Devolution Trust for Community Empowerment (DTCE) provided financial support for activities, while almost all the other major CSOs participated in events organized by LCAP.

## Results and Analysis

Through its district, provincial and national level conventions promoting the LG system, LCAP sensitized policy makers and the general public about the benefits of the LG system. LCAP drafted, printed and disseminated materials containing the legal justification of the LG system to the 85,000 LG representatives of Pakistan, as well as policy makers, parliamentarians, government officials, the media, academia, and the general public.

For the first time in the history of local governments, LG representatives gathered around a platform for their rights. Before the campaign, LCAP was working within Punjab Province but through this campaign, the members of LCAP travelled across the country for a common cause, and the campaign was soon extended to the three other provinces as well, where they had consultative meetings and dialogues with their counterparts.

Under the united pressure of LCAP, MQM, CSOs and international donors, combined with public support for the campaign,



the president of Pakistan turned down the request of the prime minister and extended the term of the LG representatives to December 31, 2009. The results of the campaign were significant (see box).

### Highlighted results of the campaign

- Federal government decision in favour of the LG system meant that the government did not curtail the constitutional tenure of local governments.
- The imminent roll back of the LG system was postponed, whereby local governments not only completed their four-year tenure but also got an extension to December 31, 2009.
- The government did not appoint administrators to replace elected LG representatives.
- The campaign attracted media and highlighted LG issues through talk shows, print and electronic media coverage.
- Parliamentarians were sensitized about LG issues.
- The general public was made aware of the benefits of the local government system.
- Because of tireless efforts of LCAP, elected LG representatives of the other three provinces felt the need for and formed provincial level LGAs in their provinces.
- LCAP replicated its model in the other three provinces of the country and got national recognition at both provincial and federal levels.
- LCAP is now recognized as a key champion of local governments.
- There was significant involvement of civil society and the general public in the campaign.

This campaign not only increased the political horizon of LG members but also gave impetus to the institutional building of LCAP as an organization. While LCAP conducted its campaign in the province of the Punjab vigorously, there was no representative LGA in the other three provinces. When its campaign extended to the other provinces, it created a sense among the LG representatives there that they should also have LGAs in their provinces. LCAP therefore took on the task helping to establish them, and provided the necessary technical support.

During this uphill task, LCAP was financially supported by Devolution Trust for Community Empowerment (DTCE). The

Association in NWFP (North West Frontier Province) was established relatively early, as some paper work had already been done prior to the campaign. In the other two provinces of Sindh and Balochistan, LCAP had to work to its full capacity to help form the LGAs quickly. Once established, the new LGAs joined the campaign soon after their inception.

The former chairman of the National Reconstruction Bureau (NRB), who is a renowned champion of the LG system in Pakistan, explained: “The Save the Local Governments Campaign by LCAP has done wonders within a very short time and the other three provinces are motivated to have their LG associations.”

It should be noted that respect for law and order in Pakistan had deteriorated in the lead-up to the campaign, making the launch of a countrywide campaign quite difficult and hectic. The success of the campaign required strong motivation on the part of LCAP and LG representatives. The Government of the Punjab was not in favour of the LG system and created many hurdles in the smooth running of the campaign. Despite this, the Save the Local Government Campaign was taken on at a very crucial time, following the general elections of February 2008. At that time, the newly elected coalition government was under immense pressure by the Punjab Government to abolish the existing LG system, and LG representatives felt the outlook for the LG system was bleak. The campaign proved to be a silver lining for LG stakeholders.

### Lessons Learned and Replicability of the Experience

At the beginning of the campaign, LCAP focused on its LG members, but after some time felt that the campaign was not achieving the desired impact on policy. LCAP therefore modified its campaign strategy such that key parliamentarians were also made the focus of the campaign. This change was effective in putting pressure on the government.

LCAP also felt that the campaign would need to cover the whole country to be effective at the national policy level, so the campaign was extended to the other three provinces.

Although LCAP involved academia in the campaign to some extent, it realized that academia should have more involved from the start of the campaign, to strengthen the development of the campaign platform.

Media was also involved at every step of the campaign. LCAP ensured that every activity of the campaign was covered by the local and national print and electronic media. LCAP staff also

received training in media relations from the Local Government Association (LGA) of UK and Wales, which was used effectively during the campaign. LCAP also received training on advocacy and financial management through regional LGA capacity building workshops co-organized by FCM and VNG International in Manila and Hanoi. The training was extremely helpful in building the campaign strategy and activities.

While the political social and economic context of a given country should be taken into consideration, the basic components of the LCAP campaign could be replicated by other LGAs working on LG issues.

### **Case Study 3: Communication Forum of Local Governments and Legislatures of Aceh (FKKA)**

#### **Enhancing intergovernmental relations in Aceh Province, Indonesia: Advocacy on the Aceh Special Autonomy Fund and Additional Shared Earning Fund from Oil and Gas**

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##### **Summary**

The Canada/Aceh Local Government Assistance Program (CALGAP), funded by the Canadian International Development Agency (CIDA) and implemented by FCM, had as one of its objectives to support the strengthening of intergovernmental relations between the Province of Aceh and its Kabupatens (Regencies/Districts) and Kotas (Cities/Municipalities), in order to overcome common local government issues and to be more effective in their development programs.

To help meet this objective, CALGAP proposed the establishment of a collaboration body. As a result, the Communication Forum of Local Governments and Legislatures (FKKA) in the Province of Nanggroe Aceh Darussalam was established in a Founding Conference in March 2008. At that time, an action plan was approved with the priority of advocating for the increased role and participation of Kabupaten/Kota governments in local development projects financed by the province's Special Autonomy Fund (SAF) and Additional Shared Earning Fund from Oil and Natural Gas (SEF). When the SAF and SEF were developed in 2008, the implementation of the allocation for Kabupatens/Kotas was centralized in the provincial government. FKKA, on behalf of its 23-member Kabupatens/Kotas, undertook an advocacy initiative to decentralize the implementation of the SAF and SEF allocated for them.

In 2009, FKKA's advocacy resulted in the partial fulfillment of this objective, with the revision of the "governor regulation" for decentralizing the SAF. A revision of the "provincial regulation" will be required to decentralize both the SAF and SEF. FKKA plans to continue its advocacy program until its recommendations to decentralize both the SAF and SEF are fully implemented.

##### **Introduction**

When CALGAP proposed the establishment of a collaboration body (FKKA) to overcome common local government challenges in Aceh following the tsunami disaster of December 26, 2004, the four national LGAs in Jakarta and more than half of the Kabupaten/Kota executive and legislative elected leaders (Regents, Mayors, Legislature Speakers) in Aceh were consulted and supportive of the initiative. While there is no structural relationship between FKKA and the national LGAs, they do collaborate on common issues.

The Board of Leadership of FKKA was elected during the Founding Conference in March 2008 and consists of 13 elected leaders (executives/legislatives) representing the Aceh regions of (a) North and East, (b) Central and Southeast, (c) West and South, and (d) cities. During the Founding Conference, FKKA's action plan was approved with the priority of advocating for the increased role and participation of Kabupaten/Kota governments in local development projects financed by the province's Special Autonomy Fund (SAF) and Additional Shared Earning Fund from Oil and Natural Gas (SEF).

The province of Aceh has Special Autonomy status in Indonesia, based on Law Number 11 Year 2006 on Governing of Aceh. (Papua and West Papua also have Special Autonomy Status). The SAF and SEF are special funds allocated to these provinces, in addition to the regular budget revenues of the Provinces and Kabupatens/Kotas in Indonesia. The SAF and SEF budgets for Aceh in 2008 were approximately USD 387 million and USD 142 million, respectively. Sixty per cent of the SAF was allocated to 23 Kabupaten/Kota governments in Aceh and 40 per cent was allocated to the provincial government. Thirty per cent of the SEF was allocated to education in Aceh, and 70 per cent to other programs impacting prosperity (40 per cent of which went to the province and 60 per cent to Kabupatens/Kotas).

##### **Issues and Approach**

Upon its inception, FKKA set as a priority an advocacy initiative to decentralize the implementation of the SAF and SEF because of the lack of role and participation of Kabupaten/Kota governments in the management of local development projects

financed by their SAF and SEF allocations.<sup>4</sup> The main issues related to the implementation of SAF and SEF allocated to Kabupatens/Kotas included:

1. Centralizing the development projects funded by SAF and SEF for Kabupatens/Kotas at the provincial level would be inefficient and less effective. The concentrated work load in the provincial government could result in low realization of the budget, due to a longer timeframe required to process procurement, etc.
2. A centralized process would not support decentralized and democratic governance, and would slow down the capacity development process of Kabupatens/Kotas.

FKKA had a number of objectives in its advocacy on the implementation of SAF and SEF allocated to Kabupatens/Kotas, including:

1. to achieve equity and improvement in development progress among districts/municipalities in Aceh, as stipulated by Law 11/2006;
2. to transfer (not only allocate) the funds to each Kabupaten/Kota budget in an amount based on a formula considering the local needs and conditions, in order to have more participation, transparency and accountability in Kabupatens/Kotas;
3. to achieve the effective and efficient management of local development projects by having the Kabupatens/Kotas managing the projects under the general supervision and guidance of provincial governments; and
4. to develop the capacity and participation of Kabupaten/Kota governments through the guidance and assistance of the provincial government.

To prepare for FKKA's advocacy campaign, a consultant was engaged to visit and consult with selected elected leaders (regents, mayors, speakers of local legislature). A workshop and meetings were organized for further discussions and to formulate a recommendation to the Aceh Provincial Government and Legislature.

FKKA carried out its advocacy work on the SAF and SEF through consultations, workshops, and meetings with the Aceh Provincial Government and Legislature, and letters to the Governor of Aceh and to the Speaker of the Aceh province and Legislature. Special units were formed at FKKA to address the



*FKKA members met in November 2009 to discuss the advocacy campaign.*

advocacy on SAF and SEF, i.e., FKKA's Financial Committee and Technical Team for SAF and SEF.

## Results and Analysis

As a result of FKKA's advocacy to the provincial government, the following are the achievements and/or progress made of the recommendations in the advocacy program.

- The Governor Regulation for the implementation of the SAF and SEF was changed to accommodate an increased role for Kabupatens/Kotas in the implementation of the SAF. Some provincial government authorities in the SAF were delegated to Kabupaten/Kota governments (i.e., the fund administration in its use and treasury and technical implementation, in accordance with the guidance, design and specification determined by the provincial government.) However, the SAF (and SEF) are still not being transferred from the provincial budget into each Kabupaten/Kota budget, as had been proposed by FKKA.
- The SEF implementation of Kabupaten/Kota allocations has not been delegated yet, since it requires the revision of the Qanun (provincial regulation, requiring legislature approval). FKKA prepared an academic paper and a subsequent recommendation for revising the Qanun on the implementation of the SAF and SEF. It was submitted to the Aceh governor and the legislature in early 2010. The proposal is to delegate

<sup>4</sup> While other issues were also identified as a priority for local elected leaders, such as local government performance, implementation of the Law on Governing of Aceh, insufficient infrastructure, spoiled plantation/farming, poverty and unemployment, and housing for tsunami and earthquake victims, these were not included in the Action Plan because of the limited resources available to FKKA. In its first years of operations, FKKA also focused on building its own capacity and raising awareness about the association to its members and other stakeholders.

both SAF and SEF implementation to Kabupatens/Kotas and to transfer the allocated SAF and SEF to Kabupaten/Kota budgets as a Province Financial Grant.

Mr. Aidil Fan, Head of Committee of Langsa City Legislature, commented: “From the perspective of advocacy effectiveness, especially when FKKA advocates its members’ needs to both provincial and national governments, then the advocacy will become a strong and a solid policy issue. What FKKA brings to them is not just a voice of one or two districts, but it is the voice of 23 districts and cities in Aceh. Therefore from now on, both provincial and national governments cannot neglect the voice of FKKA which reflects the districts’ and cities’ interests and needs.”

### Analysis

FKKA’s advocacy process has demonstrated the importance of an association in voicing the concerns of all 23 Kabupatens/Kotas, including both the executives and the legislatives, to the provincial government.

The advocacy process has also enabled both orders of government to work in partnership in finding solutions that meet both the Kabupatens/Kotas’ and the province’s needs, rather than pitting them as competitors. While FKKA was able to make more effective recommendations by developing common issues and agreed solutions, the provincial government received the benefit of not having to contact every Kabupaten/Kota individually.

The large budgets of the SAF and SEF can improve the welfare of people in Aceh and contribute to their development only if they can be disbursed and implemented effectively and efficiently. SAF and SEF expenditures in 2008 (the first year of a 20 year implementation plan) were very low, as the centralized implementation mechanism led to a long process of administration and procurement. In addition, it did not encourage the capacity development of Kabupatens/Kotas.

In 2009, the absorption of SAF and SEF was still low. The delegation of authority (or decentralization process) through the revision of the Governor Regulation in April 2009 was still partial, resulting in a longer process to realize development projects. The capacity development of the technical personnel at Kabupatens/Kotas still needs to be improved. Another important factor affecting the absorption of the province’s and Kabupatens/Kotas’ budgets was the long process of discussion between the executive and legislative bodies to approve them. The late approval of the budgets resulted in a late start of budget expenditures in the fiscal year.

FKKA will continue with its advocacy program to have its recommendations to the Aceh Provincial government fully implemented.

### Lessons Learned and Replicability of the Experience

The FKKA case has generated a number of important lessons learned.

- FKKA’s advocacy has strengthened the relationship between Kabupatens/Kotas in Aceh and the provincial government, enabling both orders of government to be mutually interested in solving common challenges.
- The stronger relationship between the Kabupaten/Kota governments and the provincial government has improved coordination in solving common challenges.
- FKKA has learned that conducting research by interviewing and consulting with its members to understand the common issues is very important in setting priorities for advocacy.
- FKKA has learned in its advocacy work the importance of frequent awareness raising campaigns/activities with FKKA members, and the importance of involving them in the advocacy process (i.e., meetings, discussions) in order to strengthen FKKA’s voice, and increase the ownership by FKKA members of the association and its programs.

FKKA’s advocacy process could be replicated in other LGAs that are searching for common issues to address. The key principles lie in campaigning and promoting ownership by all members of the LGA, developing partnerships and setting common goals with the relevant higher orders of government.

The strengthened relationship between Kabupaten/Kota governments and the provincial government in Aceh could be replicated in Indonesia with some adjustment. FKKA has consolidated all Kabupaten and Kota executive and legislative bodies in the province. The national LGAs at Kabupaten/Kota level consist of four associations that separate executives from legislatives and Kabupatens from Kotas. The chapter of each national LGA covers more than one province, while Forum KKA covers Kabupatens/Kotas in one Province of Aceh. Replication of the FKKA model in other regions would require collaboration of the four national LGAs and the creation of a special task force to establish stronger relationships in each province.

## SECTION 2: STRENGTHENING LGA FINANCIAL SUSTAINABILITY

### Case Study 4: Measures to Increase Financial Sustainability of Two Indonesian LGAs

#### Summary

This case study explores measures to improve financial sustainability by two LGAs in Indonesia — the Association of Indonesia District Councils (ADKASI) and the Forum of Local Governments and Legislatures of the Province of Aceh (FKKA). Membership fees are important for the effective operations of both of these LGAs; however, payments of member fees have been hampered by the questionable legality of the fees, since government regulations in Indonesia do not provide a line item in the local government budget for the membership fee. Some audits carried out by the State Audit Body have considered the payments illegal. These findings have resulted in members being reluctant to pay the fee. Payment of fees also tends to decline during election years (as happened in 2004 and 2009), when the attention of local councillors turns to politics.

ADKASI, FKKA and the other national LGAs in Indonesia plan to do advocacy with the Ministry of Home Affairs, Ministry of Finance, State Audit Body, and the Corruption Eradication Commission, on the issue of legality of the membership fee.

The problem with membership fee collection has caused a serious cash flow problem for ADKASI. As a result, it has focused more attention on paid services to support its operations, which has increased its revenue significantly. Its experience with paid services has given birth to a special unit within its secretariat — the ADKASI Learning Center — that will focus on providing paid services to its members. Paid training services have market potential for ADKASI, since local government budgets have large allocations for capacity building. However, ADKASI later learned that paid services are not necessarily a long-term solution for financial sustainability.

FKKA is a newly established LGA in the Province of Aceh (see case study 3) that was initially supported through a local governance program implemented by FCM, called the Canada/Aceh Local Governance Assistance Program, which ran from 2006–2009. When the program ended in April 2009, there was a gap in funding support for FKKA to continue its

operations. FKKA established membership fees for its members, which was the only revenue it expected during the absence of support from donors/partners. The revenue received from the membership fee in 2009 was enough for FKKA to carry out minimal operations. FKKA has been conducting advocacy on the implementation of Aceh's Special Autonomy Fund (SAF) and Shared Earning Fund from Oil and Natural Gas (SEF), in response to the issue being raised as a top priority by its members. The success of FKKA's advocacy will increase the credibility of FKKA and contribute to the satisfaction of its members, facilitating the collection of membership fees.

#### Introduction

In Indonesia's national context, following the implementation of the Indonesia's decentralized government and regional autonomy in January 2001, a number of national local government associations were established at the provincial level and at the regency (Kabupaten) and municipality (Kota) level. Kabupatens are predominantly rural local authorities while Kotas refer predominantly to urban administrative units. The Association of Indonesian Provincial Governments (APPSI) and Association of Speakers of Provincial Councils (APDPSI) exist at the provincial level. The Association of Indonesian Kabupaten Governments (APKASI/BKKSI), the Association of Indonesian Kabupaten Councils (ADKASI), the Association of Indonesian Municipality Governments (APEKSI), and the Association of Indonesian Municipality Councils (ADEKSI) all exist at the Kabupaten/Kota level.

ADKASI was established on August 28, 2001 through a national general assembly of Kabupaten councils held in Mataram, Lombok. ADKASI's objective is to create effective Kabupaten Legislatures (DPRD) to foster good governance towards sustainable development, under the regional autonomy and democracy framework of Indonesia.

In Banda Aceh, FKKA was established to strengthen collaboration among Kabupaten/Kota governments and between these governments and the province of Aceh in solving common challenges affecting local governments (see case study 3). Between March 2008 when it was first established and March 2009, FKKA was fully supported by the CALGAP program (see summary above). However, between April 2009 and December 2009, FKKA received no external support and had difficulties funding its programs and activities.<sup>5</sup>

While long-term sustainability is rather hypothetical and sometimes not seen as essential for countries with abundant external

<sup>5</sup> FCM has received funding from CIDA to work with FKKA for one additional year beginning in January 2010.

support, the cases of ADKASI and FKKA highlight their experiences dealing with “short-term unsustainability,” in which they each had to find cash just to survive. While the LGAs have worked on their financial management by minimizing their recurrent expenses, this case study looks at their attempts to increase revenue from different categories of internal sources. ADKASI has tried to gain revenue from paid services while the newly-established FKKA has tried to market itself to its members and generate membership fees.

### What is financial sustainability for an LGA?

An association’s financial sustainability is defined as the ability of an LGA to raise the funds required to achieve its strategic goals and cover its operational requirements in the short, medium and long term. The short-term sustainability or “Operational Balance” is achieved when the LGA has the ability to pay all its short term liabilities and recurrent expenses with its available cash. Meanwhile, long-term sustainability or “Structural Balance” is possible “if and only if” the potential membership fee is sufficient to cover recurrent expenditures now and into the future. This is where the concept of membership fee payment is crucial, because it indicates the degree of financial independence of an LGA from external sources.

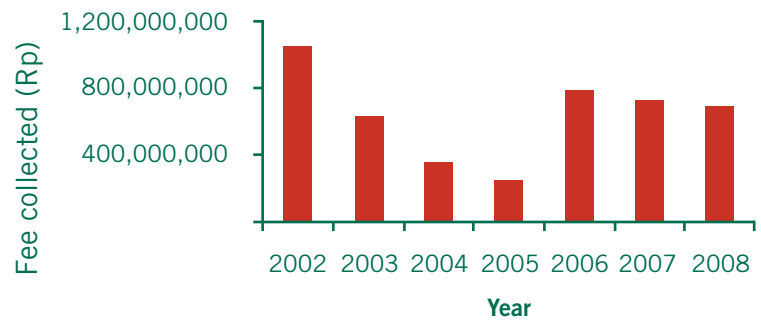
When an LGA has several sources of revenue in addition to membership fees, it is crucial to examine how much the membership fee revenue contributes to its budget in order to assess its long-term sustainability. However, in the Indonesian experience, while LGAs typically evaluate their level of fee collection, they often don’t look at this figure in relation their total budget. This may be because: a) the revenue largely consists of the membership fees, meaning that the LGA is already financially sustainable, or b) the budget has been predominantly subsidized or supported by external sources, meaning that short-term liabilities and recurrent expenses are well covered, but not necessarily longer-term expenses.

## THE CASE OF ADKASI

### Issues and Approach

Following the year of its establishment, ADKASI started to collect membership fees. As ADKASI and its potential benefits were not yet widely known to its members, only 30 per cent of members paid fees. This amount actually continued to decrease in the following years, when revenue from fees dropped to 18 per cent of its potential and even further in 2004 to 10 per cent (See figure 4.1).

Figure 4.1 Member Fees Collected by ADKASI 2002-2008



Funding from donors was decreasing around 2003 and 2004, with most grants from donors earmarked for projects/activities. In addition, there was decreasing support and attention from local politicians due to upcoming local elections, resulting in lower subscription. These combined factors caused a serious cash flow problem to support overhead, staff and administration costs. ADKASI had to cut its recurrent expenses by moving to more modest office space, downsizing and even imposing a salary cut.

In the midst of this crisis of financial sustainability, ADKASI launched the idea of introducing paid events. The first paid event organized for newly-elected councillors in 2004 turned out to be a success, so ADKASI identified this line of business as an opportunity to generate revenue to sustain its institution. But this is just a beginning of the story.

ADKASI began charging registration fees for events in 2004, in response to its members’ demands for capacity building following the local legislative elections that year. Since then, ADKASI has been developing training programs for member councillors on their roles and functions, and has been providing technical assistance for local councils on certain tasks, such as draft budget analysis. While members may ask for a tailor-made training program for individual councils, most if not all events organized by ADKASI are paid for by members, with the resulting margin of profit supporting ADKASI’s budget.

With the growth of paid services, the contribution of membership fees to the total revenue decreased from 23 per cent in 2006 to 14 per cent in 2007 and 2008, to 13.5 per cent in 2009. Revenue from paid services, on the other hand, has exceeded 70 per cent of the total revenue. The contribution of member fees has not increased, not only because income from paid services keeps growing, but also because following the introduction of new Indonesian Local Government Act in 2004, there was no longer a legal foundation for Indonesian local governments to pay an LGA membership fee.

Indonesia's Law on Regional Governance does not refer to LGAs, and the Ministry of Home Affairs' regulation on the management of the local government finance and its regulation on the guide for the preparation of local government budgets do not provide a line item for the payment of LGA membership fees. In several Kabupatens, the State Audit Body (BPK) found that the membership fee payment to ADKASI amounted to illegal spending by the local government. Not surprisingly, local governments tend to be reluctant to pay the fee as a result. Consequently, relying on the membership fee proved risky because of a number of challenges associated with regular payment by members.

Many local governments paid their ADKASI membership fee (which ranges from IDR 10 to 15 million (~ USD 1,000-1,600) depending on the number of representatives at the Kabupaten council) using a different budget account, called "grants to organization." The grant is permitted<sup>6</sup> to support the functions of local governance that are carried out by the government, semi governments, other local governments, local government owned companies, community and the community organizations for which purposes have been determined. Because the grant is neither obligatory nor recurrent, this is not a reliable subscription fee payment mechanism either.

It is in this context that ADKASI's paid service arm was eventually transformed into a unit named the ADKASI Learning Center (ALC). However, while ADKASI has managed to sustain itself financially in the last few years through its paid services, its strategic planning exercise for 2010-2014 identified some challenges related to this service line.

- ADKASI has been focusing too much on paid services and to some extent foregone its main function as an LGA (i.e., advocacy, information and communication, capacity building).
- ALC has been responding to specific demands of a small group of members through customized training and technical assistance, limiting its ability to respond strategically to more significant capacity development of member councils and councillors, which is needed to boost the image and performance of local councils in Indonesia.

Essentially, ADKASI's paid services have been identified as an alternative source of revenue and necessary for members, but they do not go far enough to serve members. The development of the ALC is therefore identified as one of the strategic areas



*ADKASI Learning Centre provided local finance training for DPRD Kabuten Bireun, Aceh.*

in ADKASI's draft Strategic Plan 2010-2014, but it will operate alongside ADKASI's core service provision program related to advocacy and will develop services that address the capacity development and performance enhancement of member councillors. Thus, ALC will be strengthened to provide high quality, competitive training services that will benefit ADKASI not only financially but also in terms of image and position building. ALC will therefore focus less on increasing its net profit and more on member outreach.

The decision to strengthen ALC was made during the development of a business plan that was preceded by market research conducted in 2009.<sup>7</sup> The research indicated that the market potential of capacity development for Kabupaten Legislatures (DPRDs) is large and promising, with 377 Kabupaten's DPRDs registered with ADKASI. The research indicated that the total annual training budget of 377 Kabupaten DPRD is about IDR 143 billion (about USD 15 million). The capacity building budget of Kabupaten DPRDs increases on average by about 10 per cent annually, and the annual budget of training is about 63 per cent of the annual capacity building budget.

<sup>6</sup> The grant is permitted according to the Ministry of Home Affairs' regulation no. 32/2008 on the guide for the preparation of local government budget 2009 and regulation no. 25/2009 for preparation of budget 2010.

<sup>7</sup> The business plan development was assisted by an international expert and market research conducted by a national expert, both financially supported by VNG International.

## The Case of FKKA

In anticipation of the completion of CALGAP, FKKA prepared for its financial sustainability through the establishment of annual membership fees for its *Kabupaten/Kota* members (see box below), as well as a request for a contribution from the province of Aceh.

Local Government Annual Budget	Annual membership fee
< Rp 500 billion	Rp 50 million/member
≥ Rp 500 billion to 1 trillion	Rp 60 million/member
> Rp 1 trillion	Rp 70 million/member

(Rp 1 million is ~ USD 100)

FKKA recognized that its members would need to have a sense of belonging in the Forum and understand the benefits of membership in order to be willing to pay the membership fee. FKKA has worked with its members on their top priority issue — advocacy related to increasing local government autonomy over development projects financed by the Special Autonomy Fund (SAF) and Shared Earning Fund from Oil and Natural Gas (SEF).

In 2009, FKKA achieved about half of its objective related to its advocacy program on SAF and SEF. Advocacy on SAF and SEF will continue in 2010 until its objective is fully achieved. This success has increased the credibility of FKKA among its members, and no doubt has contributed to their satisfaction with the association, facilitating membership fee payments. As of December 2009, eight members of FKKA paid their annual membership fee and the other 12 members committed to paying it.

The revenue received from membership fees in 2009 has been just enough to sustain FKKA, but it has been operating in survival mode. FKKA therefore plans to develop a program to increase its members' sense of belonging in its activities, by solving common issues faced by its members.

There are several revenue sources that FKKA has not yet exercised, such as:

- **Members**– Fee for services e.g. capacity development, technical assistance, workshops, etc.
- **Government**– i.e., Aceh Provincial Government; fees for project contracts such as research and data collection for development planning or fees for services, e.g., organizing workshops, etc.
- **International Donors**– Assistance in a donor's project
- **Corporate/Companies**– Implementing corporate social responsibility.

The research also revealed that with revenue from paid training services in 2009 of Rp 2,718,000,000 (about USD 290,000), ADKASI only captures 1.9 per cent of the market share. This is because there are many local council training providers in Indonesia, including national government agencies and profit and non-profit organizations. Given the mandate of ADKASI to provide such services to its members, there remains a huge challenge for the ALC to reach out to more members.

The development of the strategic plan also shed some light on the necessity of improving ADKASI's other core roles, particularly in representing its members. As this is a service that is meant to benefit all members, it is justifiably financed through membership fees. ADKASI realized that embarking on an advocacy effort to call for a legal foundation for subscription fee payment is imperative, and has started to work jointly with other Indonesian LGAs on this initiative.

## GENERAL ANALYSIS FROM THE ADKASI AND FKKA CASES

ADKASI's approach in generating revenue from paid services has indeed solved its short-term financial sustainability challenge. Its focus on paid services resulted in a positive response by its members, indicated by the growing number of customized trainings from two in 2004 to 19 in 2009. ADKASI and ALC have drafted their five-year strategic plan and business plan of 2010–2014 that will guide them in realizing their strategic objectives.

The development of the ALC also seems to be a strategic direction of ADKASI, considering the large budget for capacity building of Kabupaten Councils. ADKASI is in a very strong position to provide paid training services to its members, since this service meets one of the association's original objectives, i.e. capacity development of its members. Further, ADKASI members can easily allocate paid training services in their local budgets through the capacity building budget line.

However, ADKASI has also learned that paid services are not the solution for long-term development. While the training market provides an opportunity for income generation through councillor trainings, the market norms that rule ADKASI's relationship with its members are different from the "political relationship" associated with a membership organization. ADKASI found that in its role as an LGA, it should represent its members' interests at the national level. It therefore needed to strengthen its core advocacy and lobbying function, which can only be financed through membership fees to retain independence from other orders of government or donors.

FKKA's approach in mobilizing revenue from internal sources not only solved its short-term operational imbalance but also laid a foundation for a solid long-term structural balance. Eight out of 23 members (35 per cent of the total) paid the annual membership fee in 2009 and the fund was able to support FKKA's operations following the phasing out of an external donor. Since these were payments made in the first year of the association's operations, they either had not become a finding of the State Audit Body yet or an audit was not conducted for the 2009 fiscal year.

ADKASI, FKKA and the other national LGAs in Indonesia plan to jointly advocate to the Ministry of Home Affairs, Ministry of Finance, State Audit Body, and the Corruption Eradication Commission, on the regulation that puts in question the legality of LGA membership fees. This is critical for the sustainability of all LGAs in Indonesia over the longer term. The executive director of ADKASI and the executive secretary of FKKA both have said: "The functions of ADKASI and FKKA are to support good governance at the district level, assisting the provincial level and the national level governments. The LGAs in Indonesia need to be acknowledged for [their] useful functions and given support by the national government for the legality of their membership fee allocation in the local government budget."

During this advocacy work, discussions could take place or recommendations could also be made to allocate the LGA membership fee in the budget for operations support of the head of regency/mayor/council speaker. This budget can be used to support coordination, alleviation of community social susceptibility, security and other special activities to support the tasks of these officials. In this case, the membership fee would need to clearly define what specific services the fee payer would get for payment of membership.

Local legislatures/councils in Indonesia also have a budget to support expenditures on activities, such as meetings, work visits, preparation of draft of local regulation, assessment and review on local regulation, enhancement of human resources and professionalism, coordination and consultation on the governance and social activities. If properly defined, the membership fee could be allocated to this budget line as well.

## Lessons Learned and Replicability of the Experience

A number of lessons can be gleaned from the experience of ADKASI and FKKA in trying to achieve financial sustainability.

These include:

- Legal status of the membership fee in the local budget is important to enable the proper payments by members. Since ADKASI and FKKA have been set up to support good governance of the local governments/councils, ADKASI and FKKA, along with the other Indonesian national LGAs, will advocate to the national government to provide a local government budget allocation account that can reasonably be used for payment of the membership fee and accepted by the State Audit Body.
- There is a large potential market for paid services to LGA members, since significant funds are allocated to capacity building in local budgets. However, the commercial dimension of paid services should not lead an LGA to overlook its core services.
- In a young LGA, it is normally harder to convince members to pay. This is particularly true in the few years after the LGA has been established, if benefits have not been quickly or tangibly felt by members. Therefore, the LGA needs to work continuously on developing a sense of belonging of the members, by providing services that are beneficial to members, by becoming a strong advocate of members' interests, and by communicating regularly with members.

While other LGAs may not face a legal challenge in collecting member fees, the approach that ADKASI and FKKA have taken in dealing with their financial issues might be replicable in the following circumstances:

1) When there is an opportunity to introduce paid services, an LGA should consider this option only after responding to the following questions.

- Do the services contribute to the core mission of the LGA? It is important that any activities are aligned with an LGA's mandate.
- Can the market provide this service in more efficient manner? What value can the LGA bring? If none, then this service line would likely fail to survive.
- How can the LGA minimize risk? Should a separate division be established from the executive secretariat, or should it be contained within it? Paid services should be cost-covering, if not profitable.

2) When an LGA needs to mobilize a membership fee, the LGA must promote its values to members. LGA leaders should anticipate having to demonstrate effectively what the benefits will be for the LGA's members before turning to members for fee payment or higher subscription fee. Engaging in effective communications with members to learn what really matters to

them will demonstrate how the LGA will work with them on these issues. FKKA did this successfully by working very hard on its advocacy.

## SECTION 3: IMPROVING LGA MEMBER SERVICES

### Case Study 5: The League of Municipalities of the Philippines (LMP)

#### The Mayors Development Center: Taking the Lead in Building the Capacities of Municipal Governments

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##### Summary

In 1991, the joint Houses of Congress of the Philippines passed into law Republic Act 7160, otherwise known as the Local Government Code of 1991. Hopes were high that this landmark legislation, aimed at decentralizing and transferring powers, resources and authorities to the local government units (LGUs), would provide the solutions to their constant struggles to transform their areas into self-reliant communities.

Despite the increased autonomy accorded to them through the Local Government Code, the majority of Philippine local governments still struggle to provide complete and quality public services, and depend heavily on their internal revenue allotment (IRA).<sup>8</sup> One of the main reasons behind the underdevelopment of many LGUs is the lack of competency of local governments to utilize their powers in order to effectively perform their mandated functions. While this issue has long been acknowledged by the national government, necessary interventions, particularly capacity building programs, have remained piecemeal, disparate and discontinuous. To say the least, the majority of the training programs and seminars have not been responsive to the real needs of local governments.

In August 2005, the League of Municipalities of the Philippines (LMP), an umbrella organization of the country's 1,502 municipalities, created the Mayor's Development Center (MDC) as its research and capacity building arm. The MDC aims to respond to the expressed needs of municipal governments to develop

capacity building programs that are designed specifically for Local Chief Executives (LCEs).

Since its creation, the MDC has successfully conducted several learning events and has undertaken research on issues affecting LGUs. As early as 2008, the MDC began to see the results of its training programs, mainly through the recognition by municipalities of the participating mayors' new and improved approach to governance. Still in its infancy, the MDC is now working towards becoming the premiere training center in the Philippines and the Asia-Pacific, building a strong foundation for sustainable national development.

##### Introduction: The Birth of the MDC

Two decades since the passage of Republic Act No. 7160, or the Local Government Code of 1991, LMP has been at the forefront of local governance and development. LMP is mandated to "articulate, ventilate and crystallize issues affecting municipal government administration." Through the years, LMP has undauntedly promoted excellence in local governance through collaborative efforts with various development partners and funding institutions.

MDC was conceptualized during LMP's strategic planning workshop in September of 2004, with a view to sustaining LMP's development efforts and to respond to the expressed needs of municipal governments to develop capacity-building programs designed specifically for LCEs. The MDC was created to serve as the policy research and capacity-building arm of the LMP. On August 1, 2005, a year after its conceptualization, the MDC was incorporated as a non-stock and non-profit association through the Securities and Exchange Commission.

The creation of the MDC also redefined the role of LMP from being a conduit of dole-outs into a builder of high performing and self-reliant municipalities. In the past, municipalities would expect LMP to secure grants from the national government, foreign donor agencies, and non-government organizations. These included fire trucks, ambulances, and funds for small infrastructure projects. While this practice may seem beneficial to municipalities, it cannot be denied that it also promoted a culture of dependency among municipal governments. As an example, many LCEs expected something "tangible" in return from attending assemblies, seminars, and conferences organized by LMP.

<sup>8</sup> The Local Government Code provides local governments with a 40% share of the IRA, or the collection of the Bureau of Internal Revenue (BIR). The computation is based on the collections three years prior to the current budget year. Of the total IRA for LGUs, 23% goes to province, 23% to cities; 34% to municipalities; and 20% percent to barangays.

<sup>9</sup> In December 2009, 16 municipalities from the 1,518 members were converted to cities by ruling of the Supreme Court.



*MDC orientation training for newly elected mayors.*

Aware of the fact the national government and foreign donor agencies do not have “bottomless pockets,” the new leadership of LMP agreed that it was time to transform municipal governments from being donor-dependent into institutions worthy of being granted autonomy by the Local Government Code. Through the creation of the MDC, LMP sought to empower municipal mayors into performing their role as development managers, thereby significantly improving the quality of life of their constituencies. Believing in the vision of LMP, foreign development institutions such as GTZ, USAID, and CIDA partnered with MDC into designing and conducting capacity-building programs for LCEs.

An integral yet separately managed unit of LMP, MDC Inc. is chaired by the LMP National President, while its operations are managed by the LMP deputy secretary-general (also MDC president and chief executive officer) and the LMP Executive Director (also the MDC vice-president and chief operations officer). A core faculty member of the Development Management Program (DMP) of the Asian Institute of Management

(AIM) acts as the Senior Advisor and Training Director. In addition, four permanent staff who report to the MDC director support day-to-day operations.

### **Approach: A New and Improved Solution to a Long-Standing Issue**

The Local Government Code of 1991 provided greater autonomy to local governments to manage and improve their respective territories. The Code bestows some key powers upon provincial, city, municipal, and barangay<sup>10</sup> governments in the Philippines, including: the power to generate and apply resources; the power to exercise eminent domain for public use; the power to reclassify land and determine the manner of its use and disposition; the authority to negotiate and secure grants, and to acquire and convey real property.

The MDC is LMP’s response to the clamour of its member municipalities for in-house capacity-building programs that are designed to educate the LCEs on the necessary interventions to address the real issues and needs of their localities. The MDC

<sup>10</sup> The barangay is the smallest political unit into which cities and municipalities in the Philippines are divided. It consists of at least 2,000 inhabitants residing within the territorial limit of a city or municipality and administered by a set of elective officials, headed by a barangay chairman (*punong barangay*).

recognizes the fact that projects and programs, no matter how well crafted, will be impossible to implement without the nod of the mayor. If LGUs have a chance of developing, it will have to be through local chief executives who have the capacity to make well informed decisions.

Separating the MDC from other training institutions is its pool of champion mayors — local chief executives who have been recognized in various fields of governance, serving as resource persons for its training programs. Combined with the guided discussions on local governance provided by Professor Edel Guiza, the sharing of knowledge and experience of champion mayors provides a potent tool for building the capacities of mayors to manage their respective municipalities.

Reinforcing the discussions and knowledge sharing sessions are a series of group workshops aimed to encourage the mayors to apply the valuable lessons and develop their respective action plans. Wasting no time to effect positive changes in their localities, the mayor participants return to their respective municipalities with concrete plans of action.

In the near future, LMP and MDC plan to develop a comprehensive capacity building program that will monitor results and provide post-training assistance to municipal governments. If this materializes, LMP and MDC are confident that municipal governments will be more than able to manage and develop the municipalities and contribute to nation-building.

### ***Taking the Lead in Building the Capacities of Municipal Governments***

Since its creation, the MDC has successfully conducted several learning events, in areas such as Integrated Solid Waste Management (ISWM) and Performance Assessment through the Local Governance Performance Management System (LGPMS).<sup>11</sup> After the local elections in 2007, MDC, with support from the Canadian International Development Agency (CIDA) and German aid agency GTZ DP, conducted a nation-wide orientation for newly elected municipal mayors (ONE — M). MDC trained 13 batches of municipal mayors from the three major Philippine islands: Luzon, Visayas, and Mindanao. More recently, with assistance from the GTZ DP and Hanns Seidel Foundation (HSF), MDC conducted pilot courses on strategic management and enhanced ISWM for municipalities. It has also developed five teaching modules and inducted 15 champion mayors as members of its “core faculty.”



*An MDC training session in progress.*

MDC has also been undertaking research on issues affecting LGUs. In 2007, the Center was commissioned by the GTZ DP to conduct a thorough review of the LGPMS, a system developed by the Department of the Interior and Local Government (DILG) to assist local governments in managing their performance, with the intent of recommending measures to enhance the usability, functioning, and sustainability of the system. The Center is currently expanding its local government information system in order to better understand the issues confronted by LGUs and develop corresponding training and policy interventions.

### **Results**

As early as 2008, MDC began to achieve initial results from its initiatives, as many of its “mayor students” have received recognition for their municipalities. The mayor awardees take pride in recognizing the contribution of MDC in their new approach towards governance. These “success stories” provide inspiration to MDC to further enhance its programs and cover more municipalities.

Perhaps the most remarkable influence of MDC on municipal governments is the willingness of the mayors to pay for their capacity enhancement. Since it delivered its first training program, MDC has utilized a cost sharing scheme with development organizations. The partner institutions provide funds to cover program design, professional fees, and a portion of the board and lodging expenses. The remaining expenses are covered by MDC through registration fees from the participant mayors. The fact that municipal chief executives invest in

<sup>11</sup> Conducted in co-operation with the USAID Ecogov and German Technical Cooperation (GTZ) Decentralization Program respectively).

their education shows their dedication to improve the quality of governance in their municipalities. This is also a manifestation that municipal governments are slowly graduating from the previous state of dependency and moving towards self-reliance.

For LMP, the success of its MDC has proven its capacity not only to implement donor-assisted programs, but also quality services to its member municipalities. MDC is a testament to the enhanced capacity of LMP to advocate good governance within the 1,502 municipalities in the Philippines.

### Lessons Learned and Replicability

Five years after its establishment, the MDC still has a long way to go before it realizes its vision of “becoming the center of choice for innovation and excellence in local governance in Asia and the Pacific” and its mission, which is “to respond to the expressed needs of municipal governments to build capacity for good local governance grounded on exemplary practices of innovative municipal governments and high-performing chief executives.” Among the key steps that MDC has to take to realize its vision and mission are the following.

1. **Formulate a business plan.** This includes widening its resource base in order to sustain its operations and expand over the years. Quality training institutions offer competitive remuneration and incentives to faculty and staff. While the faculty and staff of MDC provide services at minimal fees, MDC will have to be at par with its competitors as soon as it becomes more financially stable.
2. **Develop an aggressive marketing scheme.** This is related to the previous step. Because local elections in the Philippines are held every three years, MDC cannot simply rely on “word of mouth” courtesy of its satisfied clients. MDC and LMP have to continuously develop promotional materials, including primers, audio-visual presentations, and knowledge products.
3. **Expand its capacity building programs and conduct these with regularity.** While the orientation program for newly elected municipal mayors is held every three years, MDC needs to offer its learning events on strategic management, solid waste management, local economic development, sustainable municipal fisheries, and other courses at least quarterly, depending on the demand.
4. **Widen its network with key government agencies, private sector, NGOs, and foreign development institutions in the planning and implementation of capacity building programs.** MDC should offer itself as the implementing partner to these organizations. As the umbrella organization of Philippine municipalities, LMP enjoys the support of all its members.

Compared to other training institutions, LMP can directly co-ordinate with municipal mayors for specific activities such as trainings, seminars, and research. MDC should continue to capitalize on this advantage.

The news about MDC has already reached some of LMP’s partner LGAs, including the Association of Vietnamese Cities (ACVN). In 2009, ACVN, through the Konrad Adenauer Foundation and the Federation of Canadian Municipalities, sought to learn from MDC about its mandate and functions, with a view to establishing a similar training center in Vietnam. The Senior Adviser and Training Director for MDC provided consultancy services to help plan ACVN’s version of MDC. So while MDC aims to become a premiere training center in the Philippines and in Asia-Pacific, it throws its full support to its partner LGAs, which share the same passion of providing quality capacity building programs to local governments to help build a strong foundation for sustainable national development.

## Case Study 6: The District and Regional Fora of the National League of Communes and Sangkats of Cambodia (NLC/S)

### Summary

Local government in Cambodia is a new phenomenon. As part of the Royal Government of Cambodia’s drive toward decentralization and deconcentration, the first local elections in Cambodia’s post-war history were held in 2002. The Organic Law on sub-national administration was passed in 2008, defining new relationships between Cambodia’s 24 provinces, 193 rural districts, urban municipalities and “khans” (the wards of the capital, Phnom Penh), and 1,621 local government areas, which are known as communes in rural areas and “sangkats” in towns and cities. Regulations putting the law into effect are now being devised, and local councils are just beginning to carve out a space for themselves alongside national officials.

To strengthen the councils, Cambodia’s national LGA, the National League of Communes and Sangkats (NLC/S), initiated two series of discussion fora, one at the level of districts (which encompass several communes or sangkats), and another between councils and the Senators who represent them in parliament. Both types of fora have succeeded in promoting councils’ democratic voice and creating mechanisms for problem-solving and accountability. The population of a typical commune in rural Cambodia, where 85 per cent of Cambodians live, is about 8,000.



*Police officer replies on Commune/Sangkat council's challenges, Koh Sotin District, Kampong Cham province.*

The district fora involve councillors, community members and local officials of the national government. They are designed to facilitate co-operation, information-sharing, and capacity development of councillors. Being public arenas, they also provide a means by which democratically elected representatives can hold to account the executive officers of the central government.

The regional fora bring councillors and senators together to discuss broad issues stemming from the transition to the new system. They give councillors an opportunity to convey their concerns directly to senators and to seek advice from technical experts in central government ministries. Conversely, high-ranking officials can hear the voices of communities and respond to their needs.

### **Introduction**

NLC/S was established in 2006 by the Provincial Associations of Communes and Sangkats that had been formed to represent local councils. NLC/S has a National Council, which decides policy, and a National Executive Committee. Both the Council and the Committee are elected under rules designed to ensure balanced representation of the major political parties. NLC/S's five committees are responsible for Capacity Development, Advocacy and Partnership, Institutional Development, Public Relations/ Communications, and Monitoring and Evaluation.

The general secretariat has a full-time general secretary and three staff. NLC/S is funded by dues collected from the commune/sangkat councils through the provincial associations.

The mission of NLC/S is to improve the standing of the local councils and to develop their capacity to achieve democratic and decentralized administration that is effective, sustainable, transparent and self-reliant. Some councillors have limited literacy and numeracy, and many lack technical skills, experience and confidence. The councils have no own-source revenue and depend on transfers from the national Commune/Sangkat Fund, which is supported by donors and administered by the central government. Councils complain that these transfers are inadequate and often delayed. Tensions occasionally arise between the fledgling councils and national officials, and rivalries between political parties are sometimes played out at the local level.

### **Issue and Approach**

The two series of fora are designed to respond to these challenges in several ways. The district fora aim to strengthen the local councils, encourage a culture of learning and sharing, promote commune law, and facilitate local problem-solving. The regional fora aim to facilitate discussion of broad challenges emerging from the decentralization and deconcentration process.

The idea for the district fora emerged from field visits and assessments by NLC/S's Monitoring and Evaluation Committee and from discussions within its National Executive Committee. Several pilot fora were held in 2007, and in December 2008 NLC/S urged its provincial associations and district chapters throughout the country to hold fora twice a year. NLC/S expects that by the end of 2010 each of the 193 districts/municipalities/khans will have held a forum at least once.

Initial fora are usually mounted by provincial associations, but district chapters often take responsibility for organizing subsequent fora. A typical forum brings together up to 50 people for a half-day or full-day meeting in a district hall, school, community office or pagoda. Ideally, the forum is chaired by the District Governor, who is an appointed representative of the national government. The participants include the chiefs of all Commune Councils in the district as well as some ordinary councillors, plus members of province councils, district councils and relevant associations of councils. Women and indigenous councillors are encouraged to attend. Organizers try to ensure that participants represent a mix of political parties.

Guest speakers and representatives of local administrative and technical offices, such as the police or fisheries administration, are invited as required. Community consultations are held before the forum to help formulate the agenda, and representatives of non-governmental organizations may attend the forum itself to back up councillors in their discussions with officials. Mounting a forum costs USD 100 to USD 300. Funds come from membership fees, provincial technical departments and individual donors. NLC/S urges organizers not to hold the forum in the offices of a political party and not to pay per diems or travel costs.

The regional fora are a joint initiative of NLC/S and the Senate, and are funded by the Senate and a UNDP-European Commission project on Strengthening Democratic and Decentralized Local Governance. Cambodia's senators are elected indirectly through voting by councillors in eight regions (groupings of provinces used only for these elections). The regional fora are thus a chance for councillors to get to know their Senators and express their concerns, to clarify issues with experts from relevant ministries, and to tackle problems that cannot be solved at commune, district or province level.

Fora were organized in all eight regions between July 2007 and March 2009. As well as councillors and senators, participants included province and district/khan governors and deputy governors, and provincial and district officials. The first forum lasted one day, but this was later judged to have been too short. It was also felt that councillors were unclear about the purposes and processes of the forum, and felt inhibited in the presence of the senators, whose higher status was evident in their official uniforms. Subsequent fora were held over one-and-a-half days, with the first half-day set aside for preliminary discussions among councillors on the topics of administrative, financial and planning challenges. A study by NLC/S after the fifth forum concluded that these topics were too broad, and for the final three fora the topics were defined more specifically to encourage more focused discussion.

## Results and Analysis

### *Fora promote accountability and problem-solving*

The district and regional fora have proven to be effective mechanisms for sharing information, capturing best practices, strengthening processes and systems, and developing knowledge, skills and confidence among local councillors. They also allow councils to enhance service delivery to residents, improve advocacy on behalf of communities, and promote problem-solving. In a country with no tradition of local government or

downward accountability, the fora have created a space where councils can make their voices heard.

While the district fora were originally seen as places for commune councils to share information, they have also emerged as arenas for promoting co-operation between councils and central government officials. For instance, the commune council and commune police may hold different statistics on the commune population, but coordination helps them to improve their data. The district fora are also an effective mechanism for holding officials to account on issues over which the councils do not technically have jurisdiction, such as land disputes, gambling, illegal fishing, pollution, littering, maternal health, and children dropping out of school.

In the beginning, the Commune Councils and officials did not get along well. They work in different ways. The council is an elected body at local level, and the councillors try to serve local citizens so that they can win favour with them. The officers of the central departments work on their own and don't care about the needs of citizens. In the past, when an issue arose, officials usually pointed their fingers at each other and said, "That's your job!" Now they are happy with the district fora, because they see them as a mechanism for solving problems.

**– Mr Say Kosal, president of the National League of Commune/Sangkat**

In Preah Vihear Province, unclear demarcation of property boundaries gave rise to encroachment. At district fora held to



*Commune/sangkat council meets with relevant institutions, Svay Chek District, Banteay Meanchey.*

help resolve the land disputes, officers from the District Land Management Office explained to commune chiefs and deputy chiefs that they should ask the parties to document their claims, then conduct fact-finding missions to the disputed sites, and call the parties back to reach agreement. As a result, the number of land disputes has declined.

In Kandal province, the district forum tackled illegal gambling, which commonly involves card games, cock-fighting, and lotteries.

It is the duty of the Commune Council to prevent it, but we can do that only with the intervention of the Commune Police. At the district forum, we make it a public issue. We write on a flip chart: “problem,” “who,” and “response.” We say to the police, “Why don’t you suppress it?” The police say, “Yes, we will take action to close it down.” The commune chief says, “When? You have to give us a specific date.” If they don’t take action by the deadline, we make a phone call to the district governor. We say, “That guy broke his promise. He is not serious.”

**– Mr Kong Chheng, chairman of Kandal Provincial Association of Commune/Sangkat**

Illegal fishing is a widespread problem: methods include explosives and electro-fishing with car batteries. In Prey Veng province, the commune police were known to confiscate illegal gear but return it owing to bribes and their close acquaintance with the villagers involved. At a district forum, the officials of the District Fisheries Office and the commune and district police chiefs agreed to educate the villagers about the fisheries law and warn them they would be arrested if they continued to use illegal gear. Offenses have fallen markedly as a result.

In Battambang province, the district fora provide opportunities for the provincial associations to build teamwork in councils, especially where council members from different political parties do not get along well.

When they are in disagreement, we help them to work together. We can even identify issues with the Commune Clerks who are assigned by the Ministry of Interior to work with the council. The clerk is supposed to work with everybody, but some clerks do not listen to anybody except the Commune Chief, and sometimes not even to them.

**– Mr Yos Yoeun, Chairman of Battambang Provincial Association of Commune/Sangkat**

In Takeo province, the fora provide a means for councils to check on how well infrastructure projects are implemented.

We use the district fora to check whether the bidding process for infrastructure work such as roads and canals is transparent. It lets us know whether the people whose land is acquired are happy with their compensation.

**– Madame Som Peau, chairwoman of Takeo Provincial Association of Commune/Sangkat**

## Lessons Learned and Replicability of the Experience

The Cambodian fora are a potentially useful model for countries where local government is expanding its role or establishing new working relationships with agencies of the central government. The keys to the success have been flexibility, willingness to adapt to local conditions, and the ability to take advantage of opportunities as they emerge.

### Tip: How to organize a forum

NLC/S advises organizers to take the following steps:

- Decide what level of government the forum will involve and determine what issues can usefully be discussed at this level.
- Allow plenty of time for organization.
- Secure the budget.
- Decide which stakeholders to involve, such as representatives of other elected bodies, officials of the national government, and community organizations.
- Issue invitations in the name of an office or person who carries authority with participants to encourage attendance.
- Ensure the forum is chaired by a person whose official status will give weight to decisions made.
- Promote ownership of the forum by encouraging the participating councils to identify the theme, but also allow for input by higher levels of the association.
- Focus the agenda precisely enough that the participants know what they are trying to achieve, but allow enough flexibility for participants to respond to issues as they emerge.
- If necessary, set aside time for participants to clarify their views before they discuss issues with authority figures.
- Institute proper reporting procedures so that decisions are recorded, shared and followed up.
- Avoid inviting guest speakers who might dominate proceedings or harangue councillors.
- Do not allow the forum to be exploited by political parties.

## Case Study 7: Federation of Sri Lankan Local Government Authorities:

### The Sri Lanka Young Councillors National Platform

#### Summary

The issue of youth representation in elected bodies came into serious social dialogue in Sri Lanka after the 1988–90 Southern insurgency. A presidential commission appointed to study “youth unrest” in 1991 revealed that youth had not been provided adequate space for political participation in governance. The subsequent introduction of the provision of nominating one-third of local government candidates under age 36 (agreed to by all parties) has helped youth to enter into mainstream politics and increased youth participation in local governance considerably.

The provision provides youth with an opportunity to learn what democratic rule is, and how the executive and the legislature functions in an elected system of governance. This also

helps them learn how policy can be turned into practice in administrative structures/systems. Local government provides an important stepping stone to gaining political confidence, responsibility and learning about good governance.

The Young Councillors National Platform (YCNP) in Sri Lanka was set up in 2009 under the support and guidance of the Federation of Sri Lankan Local Government Authorities (FSLGA), to create a single, cohesive platform for youth who are elected councillors of LG bodies. To date, YCNP has enabled youth to come together to discuss common issues and challenges, and has begun to build their capacity for leadership in the area of local governance.

#### Introduction

On October 1 2007, during the World Habitat Day conference in The Hague, more than 20 Young Councillors from Dutch Millennium Municipalities gathered together and offered their support to achieving the Millennium Development Goals



*YCNP capacity building program for young councillors in Matara, Sri Lanka.*

For the first time I had the opportunity to learn the basics of Governance and Leadership through the workshop conducted by YCNP. I hope that YCNP will have more and more training programs for young councillors to build our capacity. Moreover it is good opportunity for us to meet each other and build relationships.

– **Makeem, councillor Galewela Pradeshiya Sabha (Muslim)**



*Meeting of YCNP Executive Committee in November 2009.*

(MDGs<sup>12</sup>) to UN-Habitat Executive Director and Under-Secretary General of the UN Anna Tibaijuka. They presented a “time capsule” that contained personal documents of the various councillors, in which they described what they personally expected to contribute to achieving the MDGs by 2015. International dignitaries who attended were impressed with the initiative of these Young Councillors, and Ms. Tibaijuka expressed the wish that the initiative would be taken up by councillors from other countries.

The strong international support for the initiative, combined with the desire to give voice to young politicians in the area of municipal international cooperation, led to a decision by VNG International to assist the development of national platforms of young councillors who support the MDGs in other countries. The Young Councillors International Platform was formally set up on November 5, 2008 in Nanjing, China during the fourth session of World Habitat Day. Young Councillors from Sri Lanka, Uganda, Tanzania, Ghana and The Netherlands participated in this event.

Before joining this network we didn't know our peers from other political parties and other provinces. Now we work as a network of councillors. We meet regularly and discuss mutual problems and seek solutions. We want more and more women representation and we use YCNP as a supporting network to lobby for a time bound quota for women.

– **Champika, councillor, Niyagama Pradeshiya Sabha**

### Issues and Approach

YCNP Sri Lanka was established in 2009 under the guidance and support of FSLGA, and with support from VNG International. FSLGA, a recently established national LGA, had begun working on improving governance in local authorities. FSLGA recognized that youth representation would further assist in strengthening local government (LG) in Sri Lanka. As an active association with a good network, it had the influence to facilitate an intervention targeting youth, and played the role of galvanizing the YCNP into a local government network.

The YCNP initiative has become a very positive development in the arena of LG, by providing a gathering point for youth who are elected councillors of LG bodies, into a single, cohesive platform. YCNP held its first election in May 2009 to appoint its office bearers. The mayor of Matara Municipal Council was elected as YCNP's national organizer and a councillor from Beruwala Urban Council was elected as its chair. The governing body of YCNP also includes young elected officials from different districts, as well as provisions for minority and gender representation.

### Results and Analysis

During the past year, YCNP Sri Lanka has been able to attract more than 1,100 young LG councillors around the country. It is the first time that young LG councillors have come together to discuss mutual issues (though not clearly outside organized party politics). Young councillors have district representatives who meet once every two months at the FSLGA office, where they discuss issues related to youth in general and also to young politicians. They have had the opportunity to meet with the Minister of Local Government and Provincial Councils and will eventually become another LG group that can advocate for their common interests through FSLGA. The enthusiasm of the young councillors in YCNP is demonstrated by the fact that some members have come from very rural areas for district committee meetings, paying for their own transportation.

<sup>12</sup> The United Nations MDGs are eight time-bound targets by which progress in reducing poverty, hunger, disease, lack of adequate shelter and exclusion — while promoting gender equality, health, education and environmental sustainability — can be measured.

In addition, YCNP has conducted capacity-building programs for young councillors at provincial levels (with some financial support from VNG International and FSLGA). These programs seem demand driven and have demonstrated there is a growing interest among them to build their capacities as future national level politicians. Some of the provincial councils have agreed to fund training programs for young councillors, which clearly indicates that provincial governments support the network. YCNP is also being recognized by government institutions as one of the strongest youth networks in the country, and will be working with many stakeholders in future.

The FSLGA has been the key organization responsible for organizing and facilitating awareness raising programs for the young councillors, as the councillors themselves are not organizationally strong enough to operate their own secretariat or to organize and conduct their own business as YCNP. FSLGA has played a pivotal role in guiding YCNP into a strong and politically astute forum of youth in LG.

As LG authorities are run by councillors affiliated with political parties, the possibility of bringing different politically affiliated and often polemically divergent youth into a single forum is a difficult task to begin with. The establishment of YCNP could not have happened without an independent, credible facilitator like FSLGA, who could influence, convince and network with a fair number of young councillors to bring them together. YCNP includes 60 councillors from the ethnically more marginal Eastern Province. It has allocated two deputy chair positions to represent the two minority ethnic groups. Representatives of YCNP visited Eastern Province in January 2010 for their first interactions session, where they had the opportunity to work with Tamil and Muslim young councillors.

We gained a lot by the association. It helped to exchange ideas, experiences and knowledge and gain organizational skills. We have to improve this association organizationally and impart political and legal knowledge to all our members for them to become MPs one day.

Representatives of YCNP are also represented in the governance of FSLGA. The Mayor of Matara, who is the National Organizer of YCNP, is the director representing the Mayors Chapter in the Federation, and he will Chair FSLGA in 2011.

I represent Pudukuirruppu Pradeshiya Sabaha as the Chairman; and this is my first term in office. I hope to build a very strong relationship with other young councillors, which will also help me to build my capacity as a young politician.

*– Tissaweerasingham, chairman,  
Pudukudirippu Pradeshiya Sabha (Tamil)*

### **Lessons Learned and Replicability**

Young councillors have said that they have been able to gain a number of benefits from participating in YCNP. These include:

1. They've learned that there is diversity they have to live and deal with in politics.
2. There is a growing understanding that the "other" point of view needs to be allowed.
3. They have learned to respect new identities and perceptions they had previously thought had to be defeated or eliminated.
4. They have learned and shared experiences that has helped them with their own local politics.
5. They have gained knowledge through shared experience in handling LG issues, all of which would have otherwise been lost to them.

Beyond their local exposure, these young councillors have also had the opportunity of being exposed to other cultures and experiences, which has enabled them to see the bigger picture of a multicultural world.

*– Chairman, Sampath Perera,  
councillor Beruwela Urban Council*

## SECTION 4: STRENGTHENING LOCAL GOVERNANCE BY SCALING UP GOOD LOCAL LEVEL PRACTICES

### Case Study 8: Association of Cities of Vietnam (ACVN)

#### The role of an LGA in scaling up and disseminating good local level practices, leveraging resources from multiple stakeholders, and creating national impact

##### Summary

Vietnam is a transitional country presently undergoing economic and other major structural reforms. While it has retained the ideals of socialism, it has adopted policies more aligned to a market economy. The role of local governments is becoming increasingly important because the national government has devolved responsibilities over a wide range of issues pertaining to local development and services to citizens. However, the new roles and responsibilities of local governments are often caught in a complex regulatory framework and are not accompanied by sufficient resources.

This case study shows how the Association of Cities of Vietnam (ACVN) is working with its members to help disseminate good practices from a project to develop land information systems and taxation at the local level, two issues of critical importance that help address the above challenges. The story speaks to the essential role LGAs play in fostering co-operation among cities, as well as in promoting a constructive dialogue between national and local orders of government.

##### Introduction: ACVN and the Development of the Municipal Sector in Vietnam

###### About ACVN

In 1986, Vietnam began a renovation (Doi Moi) process, providing an opportunity for Vietnamese urban development. Vietnam's 1992 Constitution identifies three levels of local administration: *tin* (Province), *buyen* (District), and *xa* (Commune). Across all levels, there are over 690 local government units. It was in this context that the leaders of the cities of Da Nang, Hue, Nam Dinh, Vinh and Viet Tri met to plan the creation of a united and cooperative association of provincial cities and towns. In January 1993, three other cities (Bien Hoa, Can

Tho, Nha Trang) joined them to establish the mobilization board and the Association of Provincial Cities of Viet Nam was created.

In its first years, the association's secretariat was hosted by the office of the Mayor of Hue City. But in order to develop strategic relationships with central agencies and decision makers, the Secretariat later moved to Hanoi and hired three dedicated staff. Then, on the basis of a decision from the Ministry of Home Affairs in July 2000, the association was formally mandated to represent the nearly 100 cities and towns at the district level, as well as the five central cities, and the Association of Cities of Vietnam (ACVN) was created.

Being a voluntary LGA, ACVN started with 47 members as of its first congress in May 2001, and has since grown to include members from 92 cities and towns from all over the country. The leadership of ACVN consists of one president and four vice-presidents, while its executive committee comprises 19 members (including the president and VPs). Its current staffing consists of one general secretary, two vice general secretaries and five officers and administrative assistants. Its annual own revenues reach 800 million VNĐ/year (about USD 43,000).

In almost ten years since its inception, ACVN has significantly developed its credibility and relevance with national stakeholders, while consistently delivering value to its membership through facilitating dialogues on common issues with them, sharing information and helping build consensus, and; by organizing numerous conferences, workshops and training courses on municipal and urban development issues. Along the way, it has partnered with various international donors and NGOs to help bring resources and expertise to cities and towns. ACVN has been able to position itself as a privileged conduit to inform and reach local governments in the country.

In general, ACVN has had a major boost in its stature, both within the country and at the international level. Even so, its secretariat recognizes that its capacity building needs have in fact expanded, especially because its role as an LGA has also been evolving. From ACVN's perspective, expanding its secretariat and its membership base remain critical, as well as ensuring its financial sustainability through the development of paid services for its members, particularly training and consultancy on urban management and development. The other key development priority identified by ACVN is to enhance its capacity to do policy and advocacy, through which it could engage with relevant agencies and ministries by submitting and



*The ACVN facilitates a policy dialogue between its members and senior representatives from the four main ministries involved in land administration and local development.*

advancing policy recommendations. This would also include strengthening its ability to organize dialogues between its members and ministry officials, and other relevant stakeholders on issues facing towns and cities. In 2009–2010, ACVN and FCM had a perfect opportunity to work together on this last issue.

***The challenge of going beyond a successful project at the local level***

ACVN started its collaboration with FCM in 1998 through the Vietnam-Canada Urban Management Program (UMP), implemented by the Institute of Urban Planning of the University of Montreal and the University of Architecture of Hanoi. In October 2003, ACVN and FCM signed a five-year country co-operation strategy (later extended to 2010), which included association capacity building (ACB) support and the establishment of municipal partnership projects in order to help improve capacity for Vietnamese local governments. Five pilot projects were developed and implemented in different fields, one of which was a partnership between Ville de Saguenay (Quebec) and Nam Dinh City. The project sought to build administrative

capacity at the local level to manage land information, by improving local decision making and land use management, and developing the local tax base. The project was very successful in developing a model for land information management in Nam Dinh City. In November 2008, the initiative came to an end with a very well attended knowledge sharing workshop, which gathered about 100 participants, including representatives from key national ministries, and numerous mayors and department managers from all over the country.

While the project was coming to an end, many realized there was an opportunity to do much more. FCM had an opportunity to continue to fund an additional initiative over 12-15 months through its program, and ACVN seized the opportunity to engage in a dialogue with national stakeholders on an issue of critical importance to its members, with a view to disseminating and scaling up the model project. For FCM and ACVN, this new initiative was about rethinking their collaboration, and breaking program boundaries to integrate municipal partnership projects and ACB support.

## Issues and Approach

### *Land management as a fundamental issue for local governments*

In Vietnam, the decentralization of responsibilities to local governments has meant that their role in governance and the delivery of local services is becoming increasingly important. However, decentralization is often not implemented adequately, as local governments have very little powers to independently raise revenues and they retain only a small portion of their locally-collected revenue. That said, they have to assume growing responsibilities relative to the territories they administer, and their mandate offers great opportunities to develop cities and towns, to further advance democracy, to grow local economies and to reduce poverty. It wouldn't be an overstatement to say that the capacity of local governments to face the challenges of local reforms will shape the future of the country. Vietnam is at the verge of going through a radical rural-to-urban migration: urbanization rates are expected to reach 38 per cent in 2015, 45 per cent in 2020 and 50 per cent by 2025.

The Land Law of 2003 prescribes the principles in management and utilization of the territory: the land belongs to the whole of the people, represented by the national government; the

government manages consistently according to official plans and laws; and the utilization of the land should seek to preserve the resource. According to the Law, administration of land management is established from the national to the local level. The land management body at the national level is with the Ministry of Natural Resources and the Environment (MoNRE); while local land departments have to be established in the provinces, cities and towns under direct control from the hierarchy. A number of other pieces of regulation also shape the role of local governments with respect to land administration, including the Civil Law, the Construction Law, the Housing and Land Tax Ordinance to name the critical pieces. The administrative procedures are very complex, with many intermediate levels. The co-ordination between ministries is limited, and each has different views (and directives) regarding how things should be done at the local level. Information on real estate is lacking and not transparent, resulting in land being wasted or utilized ineffectively, while revenue is not generated.

Most Vietnamese cities still perform cadastral work manually, so the process of delivering land tenure certificates and land registration is slow and ineffective. This causes various urgent public concerns and complaints. Further, it means that local



*A mayor reports to the ACVN, partnering cities and ministry representatives on progress made in developing the land information management system in his city, highlighting findings and challenges encountered.*

revenue generation through taxation is limited. For this reason, a project to build administrative capacity to use information technology in land use management and taxation was of great significance for Vietnamese cities.

### ***A successful pilot in Nam Dinh City***

Nam Dinh City is a second rank urban area of the Province of Nam Dinh. With a population of roughly 241,000 people, the city has 20 wards and five communes, with a total natural area that accounts for 2.81 per cent of the province. Similar to other cities in the country, Nam Dinh has implemented legally binding principles on the management and use of urban land. In early 2000, Nam Dinh City initiated a pilot project on land information management under the Urban Management Program (UMP) of the University of Montreal and the Hanoi Architecture University (HAU). The initiative was later pursued under the umbrella of FCM's Municipal Partnership Program, where Ville de Saguenay was the Canadian partner providing technical expertise to Nam Dinh City to develop its land information system.

Through the project, new systems and tools have been created to improve information management related to land administration. The project helped simplify procedures for issuance of the land use right certificates and construction permits (including through merging two administrative offices). It led to the regular, simple and efficient update of information for land use management and over the project life Nam Dinh City built its database for the whole city. The staff of Nam Dinh City, including ward level staff, gained knowledge and skills to operate in the new environment. The system helped inform decision making related to the linkages between the use of land and housing information, and at the same time supported better urban governance in Nam Dinh City. Nam Dinh City was also better able to manage tax collection by automating operations and bridging data sources. And the city can now provide better services to local citizens through the creation of its Centre for Land Information, which enables a "one door" mechanism.

Saguenay and Nam Dinh City developed and tested a successful model to improve land administration and management in cities in Vietnam. The new approach and system has begun to be documented through a manual. The timeliness of this experience meets the urgent need of cities in the country to improve their capacities to efficiently and effectively manage their development and increase administrative performance.

### ***A strategy to scale up and disseminate the Nam Dinh City model***

In February 2009, with about one year of FCM's program remaining, FCM and ACVN agreed on an approach to support

the replication and deepening of the Nam Dinh City model. The funding available from FCM's program was just above USD 48,000, plus the in-kind contribution of Canadian experts from Ville de Saguenay estimated at USD 57,000.

ACVN and FCM felt that the model needed to be documented in a suitable manner (which the manual initiated), and related expertise had to be made accessible through both resource providers and peer-to-peer exchanges among ACVN members. At the same time, the project overcame a number of administrative and regulatory constraints during its implementation that needed to inform the development framework in Vietnam, and in particular ministries with direct responsibilities regarding the urban sector. Those issues required national level policy and advocacy work for the municipal sector as a whole.

The proposed approach for the replication project aimed to be pragmatic and to avoid project implementation risks, while seeking to achieve the best possible impact with remaining resources of the current phase of the FCM program. This meant focusing on the short-term (12–15 months) while keeping the mid- to long-term in mind (in particular, by seeking commitment and new resources). The approach also acknowledged that the simple replication of the model to another city had very limited interest. A fundamental shift was needed to scale up and disseminate the model, the lessons learned and the practices. The project was therefore defined as follows.

The overall goal of the Project is to help ACVN bring value to its membership by undertaking a constructive dialogue on an issue of utmost importance to them. The purpose of the project is to actively support the dissemination and deepening of the Nam Dinh City model by:

- engaging three cities in actively learning from Nam Dinh City and adapting the model to develop their own land information management system;
- mobilizing a Vietnamese resource provider to facilitate the transfer of knowledge from Nam Dinh City to the new partnering cities, as well as to conduct surveys and research to document a series of issues; and
- establishing a roundtable led by ACVN to inform ministries (Construction; Natural Resources and Environment; Planning and Investment, and possibly General Taxation Agency) about the project on an on-going basis and discuss issues faced by cities in the development of their land information systems.

Through the replication/adaptation of the Nam Dinh City model to other cities, the project would develop and consolidate the

understanding of land administration issues by ACVN and its members. The mechanism put in place to support the replication would help make the expertise and know-how more readily available for other cities to mobilize it in the future. Activities would also facilitate further documentation of various aspects of the model, which in turn would feed into ACVN's communication/member engagement plan and enrich the policy dialogue with ministries.

### ***Implementing the project with a series of new partners and stakeholders***

ACVN managed the project, including mobilizing its members and relevant ministries. Following the dissemination workshop in November 2008, a number of cities had expressed interest in learning from Nam Dinh City. The first step to initiate the project was for ACVN to select two or three cities among its members. Assisted by the experts from Ville de Saguenay, ACVN determined a number of criteria to guide the selection:

- a clear commitment from the mayor to support the project and fully participate in the network;
- the assignment of a local lead technical department, and a demonstrated willingness of the Director to co-ordinate with other local departments to develop the land information system;
- strong consideration towards the proximity to Nam Dinh City (to facilitate exchanges and limit costs); and
- at least one city from the group which should present a significant geographic and/or socio-economic difference from Nam Dinh City (to demonstrate how the model can be adapted to different realities).

A prescreening was done by ACVN, and three cities were asked to complete a survey, detailing the state of development of their land information system and clarifying the issues to be addressed through a project. Three cities were identified: Thai Binh and Phu Ly in the vicinity of Nam Dinh City (in two neighboring provinces), and Pleiku (in the central highlands; a case of rapid urban growth presenting a difficult topography). Following this exercise, a first technical mission was conducted by two experts from Ville de Saguenay to conduct a detailed assessment of the three cities. And the selection was confirmed with MoNRE and MoC, also to ensure an alignment with the possible support they were planning to provide to cities in 2009 and in subsequent years.

Most of the resources required to develop the land information systems in the three cities came from their own budget, and the project contributed specialized expertise and helped cover

costs of meetings in Nam Dinh City or Hanoi. In fact, the project (within one year) aimed to develop two- to three-year development roadmaps (drawing from the process followed by Nam Dinh City) to help participating cities plan their own information system development.

The lead technical advisors continued to be the municipal volunteers from Ville de Saguenay, while Nam Dinh's City's Mayor and staff took an increased role to share their experience with peers. A professor from HAU was hired for a total of 60 working days to provide training to the three cities and facilitate knowledge exchange, as well as to conduct research. In September 2009, a technical mission to Canada was organized with the mayors from the three cities to show them how Ville de Saguenay manages its territory. This activity enabled the mayors to discuss the potential of the initiative in the medium term and to build the relationship among the three cities.

Through the project ACVN organized quarterly meetings with representatives from relevant ministries in Hanoi. The first two meetings were supported by Ville de Saguenay and FCM, respectively, while the third one was conducted at the sole initiative of ACVN. While ACVN has good relationships with a number of national stakeholders and is regularly consulted to represent the interest of cities in the country when regulation is developed, these roundtables were a first for the association to convene various ministries to specifically discuss issues related to their co-ordination and the development of cities. An iterative approach was used, where the first meeting only aimed at building the understanding of the project's objectives and at ensuring the alignment of the project with the direction of the ministries. The second meeting began to present issues faced by cities in the development of their land information systems. In these two cases, none of the cities participated in the meeting and ACVN and HAU spoke on their behalf. At the third meeting the targeted format was achieved, where the mayors of Nam Dinh and the three cities took part in the discussion. Just over nine months into the project, they were now equipped to enter the dialogue with a common voice. As well, the resource provider from HAU had completed most of his research with them, which was ready for a preliminary review with relevant parties.

### **Results and Analysis**

The road to transforming land management and empowering local governments in Vietnam is still long, so it is too early to claim any significant success. But a number of signs already speak to how this one year initiative has contributed to scaling up and replicating the Nam Dinh City model, and has helped

position ACVN as an important actor to develop the dialogue between cities and central agencies.

The approach taken by the project was to put ACVN and its members (participating cities) in charge of its direction, giving them good reason to mobilize their own resources. This includes the strategic direction in engaging ministries (through ACVN), a good share of the expertise (by tapping into the Nam Dinh City experience) and essentially all resources to develop land information systems in the three cities (by ensuring the project is aligned with their development priorities and, on their own local budget). Of course, additional resources (including through externally funded projects like FCM's) could contribute to getting to concrete results. But Vietnam has reached a level of development where the average income of Vietnam people will surpass USD 1,000 in 2010 and outside support will likely begin to decline. The Ministry of Natural Resources, among others, recognized the need to look for new ways to implement projects like the one successfully developed by Nam Dinh City.

The two key ministries (MoNRE and MoC) said that “replicating the Nam Dinh model” is necessary. They also recognize that while they have their own programs and approaches to support the development of land information systems in cities and towns, initiatives led by the cities themselves are useful and very welcome. The fact that senior delegates from those ministries, as well as from the General Taxation Agency have participated actively in the three meetings proposed by ACVN is an important milestone in the effort to position the association with its national stakeholders.

Through the one-year initiative, Pleiku, Phu Ly and Thai Binh have been supported in their own development. All three cities appreciated learning from the Nam Dinh City experience, which they said helped them organize the development of their land information system by showing them how it can be done and the benefits of pursuing this development. Only nine short months after the initiative was started, Thai Binh City was able to complete its proposal for surveying and mapping, and equipment purchase was approved by the People Council.

The system development roadmaps are about to be developed with each city, outlining the key steps required, with resource identification and a schedule over the next two to three years. This should help consolidate the learning to date, and through these short documents ACVN members will be able to see how the process followed by Nam Dinh City can be adapted to different realities. The research conducted by HAU is another

important piece to this puzzle, as it provides the status and contextual elements relative to each city.

Finally, an important contribution of the initiative was to nurture a small group of champions among the ACVN membership to advance the issue of land management and taxation. This strengthens the foundation of the association, and provides a useful basis for future policy development and advocacy work.

### **Lessons Learned and Replicability**

When the Nam Dinh City model project was completed in November 2008, it would have been easy for ACVN and FCM to claim “mission accomplished.” But the development process isn't best framed in strictly defined timeframes. All parties recognize that this project is only part of a much bigger challenge: that of developing livable cities in Vietnam and raising the quality of life of citizens. Helping cities develop and maintain land information, and making this information available to support decision making is also a key building block to improve democracy. The key learning from this one-year initiative is around the importance of sustaining dialogue on issues and growing the crowd who take part in the discussion.

ACVN approached the replication and scaling up of the project in an iterative way, where the short-term objectives were clear but the way forward allowed for a lot of flexibility to respect the level of comfort of all stakeholders, including ACVN itself. Right from the start, ACVN and FCM recognized that building mutual understanding and consensus takes time. The careful approach taken seems to be paying off.

The response from ACVN members and key ministries was very positive, if not clearly enthusiastic. In that regard, one can think of this one-year project as a stepping stone to pursue the longer term issues. On the one hand, the Nam Dinh City model remains relevant ten years later. Land management, information management and local taxation are critical issues for the development of cities in Vietnam, as in all countries. In this adventure, the role of an agency like ACVN to promote the interests of local governments is essential. On the other hand, based on Nam Dinh City's success, ministries can see the value of a richer dialogue on local government needs and they appear genuinely interested in learning from the bottom-up experience. At the same time, they have their own challenges in promoting their agendas, and ACVN can be a valuable forum for these to be expressed and discussed outside of the usual hierarchy.

## Case Study 9: Association of Municipalities of Nepal (MuAN)

### Expanding the Integrated Property Tax System in the Municipalities of Nepal

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#### Summary

Following the introduction of a successful pilot project to incorporate an integrated property tax system (IPT) in Itahari Municipality in Nepal, the Municipal Association of Nepal (MuAN) embarked on an initiative to replicate the system in other municipalities. MuAN engaged in a range of activities to meet this objective, ranging from holding a national knowledge sharing workshop with its members, to engaging in dialogue with the central government to garner support for the initiative, to providing capacity-building support to its member municipalities to incorporate the new system.

To date the initiative has been quite successful. Thirty-three per cent of Nepal's municipalities have established the new system, and municipalities are generating more own source revenues as a result. Their increased resources are enabling municipalities to improve quality of life for their communities, through investments in infrastructure, social and economic development programs and the environment.

#### Introduction

MuAN was officially established in 1994 and is the umbrella organization of all 58 municipalities in Nepal. MuAN is a democratic association with each member municipality represented in the General Assembly (GA). The GA meets annually to set budgetary, policy and program priorities and to discuss specific issues. The GA elects MuAN's Working Committee (WC), which is comprised of 21 members (15 elected and six nominated, with at least one woman member alongside the chairman) who have a tenure of two and half years. The WC meets as required and oversees the implementation of the policies and program priorities established by GA. The WC selects seven of its members to form a Secretariat. The Executive Secretary, appointed by the WC, implements the decisions made by the Secretariat or WC. MuAN has three major working areas: advocacy and lobbying for the common interest of municipalities, information and networking, and technical and advisory support to its members.

While Nepal's Local Self-Governance Act (LSGA) 1999 gave a mandate to municipalities to mobilize local resources, realizing this objective has been a key challenge for the sector. To

address the ever growing service demands of tax payers, MuAN started providing support to help municipalities generate revenue through better tax collection, with the help of concerned partner organizations. In 2003, with support from FCM, MuAN initiated a project to introduce an Integrated Property Tax system to improve the financial situation of the Itahari Municipality, which was officially designated as a municipality only six years earlier in 1997.

#### Issue and Approach

Rapid urbanization has emerged as one of the world's major problems, especially in developing countries, including those in South Asia. Excessive urbanization has placed huge pressure on local governments to extend urban facilities and infrastructure to the growing population. Nepal's urban population is growing at a rate of 4.9 per cent per year, against a national growth rate of 2.0 per cent. It is anticipated that the growth rate will continue to rise and will lead to the formal establishment of more municipalities in the near future. The existing challenges of the urban areas relate to the discrepancy between the urban demand for services/facilities and the available resources to the municipalities. Internal resource mobilization through local tax collection is one structural means to reduce this discrepancy and move towards sustainable urban development.

Nepal's LSGA gave legal authority to municipalities to levy a house and land tax, or Integrated Property Tax (IPT). Municipalities have the right to levy IPT in lieu of House and Land Tax (HALT) and land revenue tax. IPT/HALT became the most important, potential own source of income for most municipalities, but IPT coverage was comparatively poor and needed to be improved to generate more resources for municipalities and reduce their dependency on the national transfer system.

Municipal resource mobilization is one of the core functions of MuAN in the area of technical and advisory support. In 2002, MuAN developed a project jointly with the Ministry of Local Development (MLD) and FCM to introduce the integrated property tax (IPT) system in Itahari Municipality, situated in the eastern region of Nepal. The IPT system was launched as a pilot project to support Itahari Municipality as one of the emerging towns. The following major steps were undertaken through the project.

- Municipal council made a formal decision to initiate the IPT program on July 17, 2003.
- A property valuation committee was formed shortly after the decision.

- The development and update of a database of household properties was initiated.
- A valuation committee determined the tax rate in consultation with tax payers and municipal council members.
- In order to make the tax rate acceptable to all urban residents, a “self-declaration system” was introduced, which is a system or method in which an individual can value property on his/her own.

The IPT system was then prepared and has been implemented in the city since 2003. It has not only helped broaden the coverage of tax collection, but it has also developed ownership of the system by the public. Each household was involved in the process of their own property valuation. This process reduced the complexity and eased the process of implementation, thus encouraging residents to pay taxes.

In addition, the whole process and methodologies used proved to be cost-effective and feasible for a small municipality like that of Itahari. The IPT program did not draw a huge financial resource from FCM, its partner LGA in the project. MuAN mobilized a sum of about USD 4,000 to implement the project, and made use of a

matching fund included in the regular municipal budget for IPT. Municipal staff were mobilized for the smooth implementation of the project. MuAN played the roles of catalyst and facilitator so that Itahari Municipality would own the activity and institutionalize it in its planning process. The municipality mobilized its own resources, and managed all aspects of the project.

Itahari Municipality was collecting its Building and Land Tax separately until 2002. The amount they raised through this practice in FY 2002/2003 was NRs 1,808,756.16 (~ USD 24,000). After introducing the IPT, the revenue collected has been growing steadily, from NRs 2,058,676.84 (~ USD 27,400) in 2003/2004 to NRs 2,466,390.61 (~ USD 33,000) in 2004/2005, to more than NRs five million in 2008/2009.

Following the successful evaluation of the IPT in Itahari Municipality in the initial year of IPT implementation, MuAN worked together with the MLD to attempt to replicate the IPT model in other municipalities. In April 2004, MuAN conducted a National Sharing Workshop on Integrated Property Tax (IPT) and a training of trainers (TOT) Orientation Program with financial support from FCM.

The workshop set the following objectives:

- To highlight and discuss the issues of IPT and its implications for local development, especially in addressing poverty;
- To provide input for policy reform at the central level for revenue mobilization of local governments;
- To build knowledge on IPT and its implementation procedure; and
- To develop capable human resources within the municipalities to implement IPT effectively.

The immediate success of the workshop was to be measured in terms of the number of people trained and number of municipalities showing their interest in implementing IPT. The long-term results were to be measured by the rate of adoption of IPT by municipalities and the increased revenue generated through IPT collection.

### Results and Analysis

According to the Unit Chief of the Information Section of Itahari Municipality, Mr. Sapkota, Itahari has met its target for the IPT. The Revenue Management Section has been able to collect three times more revenue than it did through the Building and Land Tax, producing a positive impact on development.

### The Impact of IPT in Itahari Municipality

The successful demonstration project in Itahari Municipality has had an impact on IPT in Nepal in the following areas:

- The MLD has proclaimed that IPT be mandatory in all municipalities.
- The MLD dispatched a circular alerting municipalities that it would seize a portion of their Block Grant if they do not introduce IPT.
- 33 per cent of municipalities have employed IPT to date (21 municipalities).
- IPT has been incorporated in the Periodic Planning of municipalities.
- Inter-municipal exchanges have been organized on IPT (domestically and abroad).
- IPT is now an indicator of Minimum Conditions and Performance Measurements (MCPM) for local governments in Nepal, which are set by the MLD. According to MCPM, a municipality that does not implement IPT reduces its performance rating, which directly affects the amount it receives from Block Grants.
- MuAN has supported 10 municipalities in incorporating IPT through its resource mobilization project, funded by the MLD.

The IPT system has done more than increase municipal income. We have been able to invest our resources now in capacity building programs. The investment has been increasing for local infrastructure development. We are now able to implement capacity development programs for social mobilization for sanitation, greenery, income generation programs, community mobilization for saving and credit, etc. On top of that we have a Periodic Plan for five years, which is mandatory now in order to draw Block Grants of the Government. This is also one of the tangible results of IPT.

– Mr. Sapkota

*Unit Chief, Information Section, Itahari Municipality*

The municipality also highlights that staff working on the IPT system are motivated, as there is room to improve the IPT through enhancement of staff's capacity and a shift from manual to electronic tax payer information records. There are also opportunities to integrate the IPT with all municipal taxes, such as those for rentals, vehicles, and businesses, and to prevent tax evasion if IPT is fully implemented.

### **Lessons Learned and Replicability of the Experience**

MuAN's role in extending the reach of the Itahari Municipality IPT highlights how an LGA can draw on lessons from a pilot project and disseminate this learning to its members. The project was not treated as a distinct effort to help a specific member, but also served as "model building." MuAn could then play its important role of providing a platform for exchange among its membership.

As a national LGA with unique status in representing all of its member local authorities, MuAn was in a strong position to hold a dialogue with the central government on the lessons learned and the potential for sector-wide scaling up of good projects.

The selection of a pilot project and project site needs careful attention by the LGA, and should be based on a strong

analysis of members' needs. This ensures that the issue is relevant and the project will address the challenges faced by the beneficiary(ies). Being an LGA led MuAN to take a pragmatic approach that would be affordable to most of its members. With all the pros and cons of different approaches, having a direct relationship with the local authorities ensured that the approach taken was acceptable, especially as it involved use of the municipality's own resources. Further, it reduced the risk that the LGA was simply operating like an implementing agency of a development partner's agenda.

#### **Tip: The System Should Be Appropriate to the Context**

Another development agency also supported some municipalities in implementing IPT, by providing them with software and introducing a house numbering system. Although this was a very systematic way of implementing IPT in order to ensure sustainability, in practice it was too expensive to implement for smaller municipalities with limited capacity and resources. As a result, it did not prove to be an effective and replicable practice in the Nepali context. However, some municipalities still follow this practice.



